GENERAL FARM BILL OF 1985
(Dairy Program, Imports of Milk Protein Products, Honey Program, and Meat Import Standards)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

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[1] Effective only for the first session of the Ninety-ninth Congress.

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GENERAL FARM BILL OF 1985

(Dairy Program)

WEDNESDAY, MARCH 20, 1985

House of Representatives,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 9:36 a.m., in room 311, Cannon House Office Building, Hon. Tony Coelho (chairman of the subcommittee) presiding.

Present: Representatives Volkmer, Olin, Penny, Stenholm, Bedell, English, Jeffords, Hopkins, Stangeland, Gunderson, Lewis, and Smith.

Staff present: Cristobal P. Aldrete, special counsel; Christine D. Abram, clerk; Kim Schnoor, Courtney Pastrick, Jeffrey Weiss, and Stephen R. Kerr.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Coelho. We can call this meeting to order.

This is the first, official meeting of our subcommittee, so I welcome everybody and thank my colleagues for being here.

We are meeting this morning to hear testimony about the impact of the current dairy diversion program across the Nation. I have invited five regional economists to testify before the subcommittee today regarding their thoughts on the current dairy program, what that program has accomplished or failed to do, and what they project will occur as a result of the implementation of the diversion program.

It is my hope that this hearing and the hearings which have been set in the near future will provide insight to the members of this subcommittee as we begin to formulate the dairy provisions in the 1985 farm bill. The situation agriculture is currently facing has contributed to the misconception to consumers that farmers are being paid for doing nothing. The problem of increasing Federal outlays to subsidize farmers is especially significant in light of the massive Federal deficit. The dairy support program will be one of the first programs under scrutiny, and because of this scrutiny, it is important that we fully review what has occurred in the dairy industry and exactly why Congress has continued to amend the provisions of dairy support program, unlike other agriculture programs.

In the 1985 farm bill, we should strive to establish a set of congressional guidelines which can accommodate the needs that may arise in an unforeseen emergency situation, and thus eliminate the need for separate legislation to deal with many of the inevitable changes to come. This will avoid the change of "paddles in midstream."

I know that each of you are aware of the diversity of the dairy industry across this Nation and of the particular viewpoints regarding the direction of the upcoming dairy legislation. I emphasize that the entire dairy industry must be united. Cooperation and unity among the Nation's dairy farmers is essential if the agriculture community is to use all its influence and power to work towards achieving a desired farm bill. The challenge we face calls for not only unity among our farmers, but also for cooperation between Government, consumers and agribusiness leaders if effective long-term policy is to be developed and implemented in the 1985 farm bill.

With these brief comments, I want to welcome and thank each of the economists for traveling some distance to represent the various regions of the Nation here today. I appreciate your willingness to share with us your insights on the current dairy program and how it has impacted your particular area. It is my hope that these hearings will provide us with a foundation in which the dairy legislation can be based to assure that the dairy industry of agriculture and of our Nation are met.

Welcome, Mr. Jeffords. Do you have a comment of any sort you want to start off with?

OPENING STATEMENT OF HON. JAMES M. JEFFORDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VERMONT

Mr. **Jeffords**. Yes, Mr. Chairman. Thank you.

Those are excellent words to set the tone of the hearing this morning.

I am pleased that the subcommittee is beginning this series of hearings on the dairy program. Too long now, many people have had what I consider to be an unfair opinion of this program. I expect that these hearings will help correct some of the unfortunate misconceptions that have developed over the past 4 years.

Let me also say right off the bat that, while the dairy price support program does indeed need some changes in the method by which the basic support price for milk is calculated, the value of the Commodity Credit Corporation's purchase program is as great today as it was in 1949. Given the very high capital investment required to operate a dairy business and a relatively low rate of return on that investment, maintain a degree of price stability, as this program does, is of the utmost importance.

The dairy program in the last few years has been the subject of much harsh and, I believe, confusing criticism. It is important that this subcommittee understand what is broke and what isn't in this case. The pricing formula used from 1949 to 1979 is clearly no longer satisfactory. Based upon the concept of parity, it is no longer in use today, nor has it been since 1979. To suggest, however, as some have that the entire program should be scrapped simply because its pricing mechanism is faulty is rather akin to suggesting that a very good cow ought to be shipped because she has gone off feed for a while. It simply makes no sense.

Congress, largely at the behest of this subcommittee, made some very significant changes in the dairy program in 1983. Known affectionately as the dairy compromise, this legislation was designed to reverse the pattern of ever-increasing milk production, CCC purchases and government outlays that began in 1980.

I might add parenthetically that some three different dairy programs were enacted from 1980 to 1982, none of which were originated by this Agriculture Committee and none of which work.

In March 1983, a small group of Congressmen and Senators met with Secretary Block to discuss a plan that I had worked with others to develop to resolve the political and economic impasse that was only growing worse. After a lot of hard work on the part of this group and many in the dairy industry, a so-called compromise was put together. In 1984, the program's first year of operation, milk production, after having climbed for 4½ years, started to decline. Government purchases of surplus dairy products fell to only 50 percent of what they had been in 1983, and some $1 billion less was spent than in the previous year, a 40-percent reduction.

I would like to note here that had we been as successful in lessening the cost of other Government programs as we had been in this case, the Nation would today have a much more manageable deficit.

For all of its supposed weaknesses, the milk diversion program that the compromise authorized did reduce milk production quickly, as was its purpose. And I must stress again the fact that this program was funded entirely by the dairy farmers themselves. Those who may still be skeptical need only to read the USDA report on this matter for confirmation. This kind of self-help is in the best tradition of America and should not be discounted, even though it is clear that the current program will not be extended.

The most exciting part of the compromise, in my mind, is the promotional program that it established. As I visit with dairymen around the country, I am overwhelmed by the essentially unanimous support for this industrywide effort to sell its output commercially. Alone among major commodity groups, the dairy industry has reacted to the challenge of marketing its products aggressively. Like the diversion program, this action of the dairy industry to reestablish a strong market position is financed entirely by assessments of the dairy producers and are now on an annual basis to the tune of some $200 million.

I think that the dairy industry deserves some credit for these efforts. No other major commodity group has taken its bull by the horns and tried to wrestle it to the ground as has this industry.

Mr. Chairman, I think that this industry and this committee have earned a great deal of respect for what they have accomplished in 1 short year. That all-important first step has been successfully taken to remedy what was a very unfavorable situation. We cannot, however, rest for too long on this accomplishment. The problem of excess production has not yet been licked despite last year's impressive progress.

This subcommittee again, in concert with the dairy industry, must put its collective heads together and develop a long-term dairy policy that will restore that remarkable farm and consumer price stability that was the hallmark of this program for the first 30 of its 35-year history. If all involved will approach this task sincerely and with an open mind, I know that we can redesign the dairy program in a way that will again bring farmers and consumers the mutual benefits of what it is capable of.

Thank you, Mr. Chairman.

Mr. COELHO. Thank you, Mr. Jeffords.

Mr. Gunderson.

Mr. GUNDERSON. No, thank you, Mr. Chairman.

Mr. COELHO. Mr. Lewis.

OPENING STATEMENT OF HON. TOM LEWIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. LEWIS. Mr. Chairman, I look forward to hearing the comments of these gentlemen who represent agriculture throughout the Nation. The differences in the dairy industry vary from region to region and point to point, and I am confident that the information we receive today and in future hearings will give this subcommittee the necessary tools in order to come up with a solid foundation for a solid dairy program in the future.

Mr. COELHO. Thank you, Mr. Lewis.

Mr. Penny.

Mr. PENNY. No, thank you, Mr. Chairman.

Mr. COELHO. We will begin with our first witness. Mr. Gunderson, you may want to introduce your friend and colleague from your area of the country.

I might want to remind all the panelists that in your letters of invitation you were alerted that we were going to be strict enforcers of time. You were given up to 15 minutes. If it takes you longer than that, you can submit it for the record, and we would be happy to have it. What we want basically is a discussion of where the dairy program is today, how the current program has worked or not worked in your opinion, and what you think we need to be doing. Hopefully, you can give us that in 15 minutes, and if you are economists and experts, you should be able to, I would think.

Mr. Gunderson.

OPENING STATEMENT OF HON. STEVE GUNDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. GUNDERSON. Thank you very much, Mr. Chairman.

It is indeed an honor for me to welcome back to this subcommittee someone who has become not only a close personal friend of mine, but a recognized dairy expert in Wisconsin and throughout the country. He has worked with us in the past on this particular subcommittee in dealing with and working out everything from the dairy diversion to the Cropp/Gunderson bill before that, and many of the other issues that we have tried to wrestle with.

It is fair to say in the last 5 years since 1980, Bob Cropp has become probably the spokesman and analyst for midwestern dairy interests. In addition to this, he has received many, many awards.

Just last year he was chosen as the chairman of the Wisconsin June Dairy Month Activities. Last year he was named the citizen of the ~~year by~~ the newspaper in his hometown. In addition to that, once and a while he finds time to be a teacher at U.W. Platteville, as well as his duties with the U.W. extension program throughout the State. So we are indeed bringing an expert on dairy policy in the Midwest here today, and it is my privilege to welcome him.

STATEMENT OF ROBERT CROPP, PROFESSOR AND AGRICULTURAL MARKETING SPECIALIST, UNIVERSITY OF WISCONSIN

Mr. **Cropp**. Thank you, Congressmen Gunderson, for the generous words. I would like to thank the chairman for the invitation to be here today and to participate in this hearing.

I will direct my remarks to the Upper Midwest primarily, my area. I will start off to say that dairy farming in my part of the country, the Upper Midwest, is extremely important to the ag economy and the general economy, when we look at the terms of our cash farm income that is generated from milk sales. In Wisconsin, 57 percent of our cash farm income is from milk sales. And if you look at the State of Minnesota, you are talking about 20 percent, Michigan about 24 and, of course, South Dakota around 9.

Recognizing, of course, Wisconsin is the leading dairy State—I think everybody knows that—producing a little over 17 percent of the Nation's milk production; the State of Minnesota being fourth, producing almost 8 percent; and, of course, you got Michigan about 4; South Dakota a little over 1 percent. These four States in the Upper Midwest produce about 30 percent of the milk production in the country, so it is an important area.

The Upper Midwest has maintained its position milk production over the past 10 years. While the Nation increased production a little over 17 percent, the Upper Midwest increased production about 20 percent, most of it due to Wisconsin going up 26 percent and Michigan about 23 percent, and the other States much smaller than that.

An impact of the diversion program, I'll make a few comments on that, because I think it is well to look at that, and it has some implications, I think, to the 1985 farm bill. Without question, the 15-month diversion program did make an impact on the surplus situation. We had about 12½ percent of the farmers participate in this program, and it did reduce milk production last year by a little over 3 percent, from 139.7 billion down to about 135.4. This was accomplished by slaughtering about 3.2 million milk cows. However, the net effect of that slaughter has reduced the cowherd only about 225,000 head, the reason being that we had record number replacement heifers, almost 5 million head, to replace that cow culling.

The second reason why production went down is that milk production per cow declined in 1984 about 0.7 percent. Now the last time that happened was in 1974 when grain and soybean prices got high and the milk-feed price ratio got low. The reason it went down this time was, again, an unfavorable milk-feed price ratio, but also due to the financial stress—but more importantly, farmers deliberately cutting back on feeding as part of the diversion program. That is a management practice that concerned me quite a bit, because I don't believe that to cut back on feeding to reduce milk production is a profitable decision on the part of farmers. So I think there is a bad management decison influence along that line.

Another reason why production went down is that farmers, rather than culling cows—they did cull cows, but rather than culling enough cows, they kept more milk back on the farm and fed it to other livestock. For example, in 1984, we had 4.3 billion pounds of milk kept on the farm, and normally it is 2.3 billion. That is another disturbing factor in the diversion that I think will come back to haunt us, because they kept cows back rather than getting rid of those cows.

On the demand side, we had a good year in dairy as well. Commercial sales of milk last year increased about 2.4 percent. It was a very good year due to favorable retail milk prices, improved disposable income, increased advertising and promotion, but a fourth factor which I think is extremely important is the stability which we had in the dairy industry over this diversion program. The support price being held at one level for 16 months actually helped in sales because it reduced the risk of inventory carried by manufacturing milk plants, extremely important up in our part of the country. They carried a better inventory all the way through the marketing channel. The anticipation of a 50-cent cut in April and in July is now again creating some real problems to our cheese plants in inventory management, and it is going to have a negative impact with sales. I would like to come back to that a little bit later.

The end result, then, of the cut in production and increased sales is that we did reduce Government purchases in half last year, from about 16.8 to 8.6 billion pounds, and it cut Government purchases costs from about $2.6 to $1.6 billion. As indicated by Congressman Jeffords, that program has been—the diversion part financed by farmers. In fact, the first three-quarters, about $711 million has been paid in and about $537 million paid out.

Mr. COELHO. These figures you are giving are for your area or for the country?

Mr. CROPP. That was national figures there.

In the Upper Midwest—I will comment now on what the diversion program has done in our area—producer participating was a little higher than the national average. In Wisconsin and Michigan, we had over 14 percent of the farmers participate; Minnesota, very heavily, with almost 22 percent; and, of course, South Dakota about 19 percent.

The net reduction in milk production in the Upper Midwest was Wisconsin declined in production about 1.3 percent; Michigan, 3.2 percent; Minnesota, 5.3; and South Dakota, almost 8. For the entire region we were down almost 3 percent, about 2.8 percent, about similar to the national average. That attributed to about 28 percent of reduction in milk production last year, those four States.

The diversion program, I guess, did disrupt milk production in some other parts of the country, mainly down in the South and Southeast. The reason I bring that up is it did result in greater shipments, spot shipments of milk out of our area to the deficit areas in late summer and early fall. In fact, Wisconsin had spot shipments of milk just last year of 2,301 tankerloads of milk, about

113 million pounds of milk; for the year before, it was only 400-and-some tankerloads of milk.

The reason I bring that up is that when that moved out in the late summer and early fall, our milk plants in our part of the country were not willing to give up this milk because at that time they were trying to build inventory of cheese and butter to meet the peak demand during Thanksgiving and Christmas. So they gave it up at charge and special premiums—or gave up charges as much as $2 and $2.50 above the going market price. I think that has raised some questions about the diversion program from some of those areas. You may want to raise questions on it later.

The Dairy Diversion Program expires here very shortly, March 31. I would like to comment where we are going to be then in 1985 with regard to that.

The major fault of the diversion program was its short duration, the 15 months. Holding cows back, cutting back on feeding and delayed the delayed breeding of heifers and that would not have occurred if the program had been longer. So it leaves us with the program going off with too many milk cows, over 10.8 million head, excess number of dairy replacement heifers and potential of increased production.

I made a projection of what production will be in 1985 based on these two cuts taking place. Of course, we don't know what the 1985 farm bill will be yet, but just those two cuts taking place. I predicted that milk production in 1985 will be at least 137.6 billion pounds of milk, up from 135.4 in 1984. That is about 1.6 percent. That may be low. That is based on the fact that we have about a little over 10.8 million milk cows right now, and we have about 4.7 million heifers, about 44 per 100 milk cows, a high ratio. I think that, with that ratio, we will maintain cow numbers close to 10.8 million for 1985.

Along with the fact that I look for production per cow coming back at least 2 percent. I don't see how they can stay down. The milk-feed price ratio is more favorable, and that will give me about 12,700 pounds of milk per cow times 10.8 million, and I come up with 137.6 billion pounds of milk. I think that is low, not high.

Another thing that disturbs me, though, is that the increase in farm marketings of milk I think will be much higher than that. I think we will find farmers returning to more normal on-farm use, close to the 2.3 or 2.5 billion pounds from the 4.3. So I look for farm marketing to actually increase 3 percent, even though production only goes up 1.6 percent.

Milk sales, I think we could have a possibility of 2- to 2½-percent increase in milk sales. Maybe it is optimistic, but looking at the retail prices and disposable income and the increased advertising promotion, I think that is possible.

In the Upper Midwest, these four States, I also predict about a 2-percent increase in production in this part of the country, based on the fact that the cow numbers are down 1.3 percent in January, but we also have about 3 percent more heifers than we had a year ago, and I do believe the pound numbers will be maintained there and production will come back per cow. In fact, both in January and February, we have seen increases in production per cow already occurring at this time, and cow numbers are coming up.

The net result then in 1985 is that, with that type of increase in production and the increase in marketing and the change in sales, the Government purchases, in my opinion, it will be over 9 billion pounds, up about 7 percent from the 8.6 percent we had this year. That means that both cuts in the support price would occur.

The impact on farm prices if this doesn't occur in the Upper Midwest—the April 1 cut, of course, does not affect the farm prices in that the 50-cent assessment comes off. The July 1 would have an impact.

In the Upper Midwest, I would estimate that less than 10 percent of our dairy farmers are in severe financial trouble at this time, less than our grain and livestock farmers because, even though milk prices have been cut, as we know, in the 50-cent cuts, through 1984 the returns to the dairy farmers have been higher than other enterprises at this time. It has declined about 10 percent. They may be in severe financial difficulty based on some credit institutions, et cetera. We may have another 15 to 20 percent that have financial problems, but manageable.

I think it would be safe to say, though, that the additional cut down to $11.60 in July will put some of those in increasing financial difficulty. It would deteriorate the financial situation with that type of cut.

The impact of these cuts probably is greater in the Upper Midwest than some areas in that we are a heavy manufacturing area. For example, in Wisconsin, 80 percent of our milk goes to manufacture products; in Minnesota, it is 87 percent; South Dakota, 62; and Michigan, 54. So it is an impact on it.

The support price of $11.60 is below the full cost production for USDA studies in our area of about $13.05. Our cash cost production though in Wisconsin is the lowest in the country. I should say the Upper Midwest is the lowest in the country, a little over $9 a hundredweight. But those farmers that are highly leveraged, probably the full cost of production is close to $12, or I should say the cash cost is $12.

We have a large number of young farmers in our area. About 20 percent of our farmers in the Upper Midwest are below age 35, and some of those are highly leveraged. So there is some concern of that financial impact on that segment if these cuts take place.

The impact on manufacturing milk plants, I will make a couple of comments on that. As I said earlier, the diversion program holding the support price at one level for 16 months helped to manage inventory and actually resulted in increased sales. Already the anticipated cut of 50 cents has impacted on our farm milk prices in our area. In fact, in November, we were $12.72 in the M-W price, we are not $12.21. We are 10 cents below the support price. And the wholesale price of butter, powdered and cheese is below the Government purchase prices at this time. What is happening is our cheese plants do not want to carry an inventory going into the price cuts and have that inventory lost. So they are selling it to the Government. Government sales have been down, but for the past couple of weeks, they are up. In fact, last week sales were up 15 percent over the previous time period simply because they don't want to carry this inventory.

I do believe that this is disrupting the normal marketing and has some negative impact on sales. The spring flush, of course, is coming up, and with the July cut, we will probably experience probably greater problems during the April-July period as we anticipate another cut of 50 cents.

A few quick comments then on policy considerations. I think that everybody would agree here today that we need a longer term dairy policy. I think the statements said that here already this morning. Since 1979, we have been talking about surpluses and the changes in the support program. We have had changes. We had two amendments to the 1981 Farm Act. It made it very difficult for farmers, credit institutions, milk plants, about everybody to plan under that change.

Second, I would say the dairy industry needs to be market oriented. This means having support prices at reasonable levels that do not encourage excess milk supplies and create the problems we have experienced. The parity concept for setting support prices no longer can be used. Today, 100 percent of parity is $21.35 per hundredweight, an unrealistic number. So I think we need to consider such things as dairy or cost of production indexes or something to move that support price in the future, and not the parity concept.

Third, I would recommend for policy that the dairy industry needs to be market oriented, as I said, but the current surplus situation we now have is still the 8 to 9 billion pounds, and the number of cows we have and heifers there. I believe that going to a market orientation approach. The free market thing right now would be too harsh of a financial blow. I think we need to have some kind of an orderly transition here. If we went to free market orientation right today, we would have about a $3 cut in the support price, which would be below the cash cost of production of many farmers, and the younger farmers, I think, just could not go that route. So look for some kind of orderly transition there.

A fourth factor I would suggest is greater stability in the support price over a period of time. As I alluded to before, the change in it frequently causes inventory problems. Freezing the support price at the current level—assume we get both cuts, the one in April and the one in July—freezing it at $12.10 or $11.60 may make some sense to the supply-demand situation. Going any lower than that, I think, is questionable, because of the financial impact this may have. So even at that support price of $12.10 or $11.60, the surplus solution may take several years to solve at that level. As marginal farmers go out, there would still be a period of time. So I would suggest that we need, in addition to that, some supply management program to bring this about a little faster and in a little more orderly fashion.

In the Upper Midwest, we do not have a concise opinion what that ought to be at this time. There has been the two-tier concept discussed. There has been strong support for some type of diversion program discussed. There has been—our largest base cooperative in the State, Wisconsin Dairies, has suggested freezing the support price at maybe $12.10, build that stability, then use assessments against farmers on a graduated scale to hold down the costs. But some stability, some supply management is strong sentiment up in the Upper Midwest to bring around an orderly transition to market orientation.

The last thing I would suggest for the farm bill is that, recognizing there are technological advances that are coming on down the road that have—who knows what the exact impact it is going to have. But as these take place, I guess I would say that the price support program, or target price, whatever is used, is going to have to reflect those things and take into consideration what happens to the cost of production. So, again, we hold those support levels in a market orientation approach without generating excess production in a longrun program as well.

I will stop there.

[The prepared statement of Mr. Cropp appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much, Dr. Cropp.

Dr. Gruebele, we will hear from you now. Unless people want to question each witness, I think it would be best to hear them all, and then have the questioning.

Dr. Gruebele is from the area near my congressional district. He is considered one of our most credible economists on the west coast. We are pleased to hear from you, Doctor.

STATEMENT OF JAMES W. GRUEBELE, CHIEF EXECUTIVE OFFICER, DAIRYMAN'S COOPERATIVE CREAMERY ASSOCIATION

Mr. GRUEBELE. Thank you very much, gentlemen of the House Subcommittee on Livestock, Dairy, and Poultry. My name is James W. Gruebele. I am a chief executive officer of Dairyman's Cooperative Creamery Association. Previously, I was a professor of agriculture economics at the University of Illinois.

Just to update everyone and get us up to speed in terms of what has happened in California in the recent past, production in California this past year increased by 4 percent, in spite of the fact that about 20 percent of the producers signed up for the milk diversion program with an average contract of about 20 percent. About 5.3 percent of 1983's milk production was diverted under the milk diversion program. What happened in California was that the nonparticipants increased their milk production more than the impact of the milk diversion program itself. In 1985, I would surmise and estimate that milk production in California will increase in the neighborhood of 6.5 to 7 percent.

It has always been my contention as an economist that the milk diversion program was a short-term solution to a long-term problem. I still believe that as a concept.

The California dairy industry has undergone dramatic changes. There has been a dramatic shift to fewer but larger producers. The number of dairymen in California dropped from 19,428 in 1950 to 2,785 dairymen in 1984, a decline of over 85 percent. Milk production per dairyman increased from 34,000 gallons per year in 1950 to 744,000 gallons per year in 1984. Herd sizes increased from an average of 105 cows in 1950 to almost 375 cows per herd in 1984.

As a point here, I would like to just interject that if we had had a supply management program which would have restricted the dairymen, these producers would not have increased their herd sizes and produced the economic size units they have today.

At one time, California was producing milk primarily for fluid consumption. The percent of market grade milk used for class I products in California declined from 78 percent in 1960 to 42 percent in 1984. California has become much more prominent in terms of milk production and as a source of manufactured dairy products. In fact, California is now second only to Wisconsin in total milk output. Total milk production in California increased from 8 billion pounds in 1960 to 15.1 billion pounds in 1984, an 89-percent increase in milk output. Production of milk in Wisconsin during this same time period increased by 32.5 percent, and the Nation's output increased by 11.1 percent during this same period of time. The percent of U.S. milk production increased from 6.5 percent of the Nation's total in 1960 to 11.1 percent in 1984.

As I mentioned earlier, production of milk in California grew more rapidly than class I sales in the last 25 years. Consequently, more and more milk is being utilized for manufacturing purposes. Butter production increased from 1960 to 1983 by 446 percent, compared to a 5.4-percent reduction nationally. During this time period, national per capita consumption of butter declined by 32 percent.

Production of nonfat dry milk powder from 1960 to 1983 increased by 275.9 percent, compared to a 17.5-percent decline nationally.

One of the problems in California is that there is a serious imbalance in the production of dairy products. The California manufacturing plants are not producing to the market. The consumption of cheese in California is much larger then the production of cheese. According to a recent study by the Stanford Research Institute, California imports about 315 million pounds of cheese annually. However, California manufactures significantly more butter and nonfat dry milk powder than is being consumed within the State. There is a huge market for cheese in the western sector, and the whole area is in a deficit position in cheese.

On occasion, considerable volumes of butter and powder are transported from California to eastern areas to seek a commercial market. In the meantime, large volumes of cheese move from the Midwest to California. If there were a better balance in the production of dairy products in California, there would be less waste in transporting manufactured dairy products around the country.

There are a number of reasons for milk output trends in California. California is blessed with a favorable climate which helps to minimize the fixed costs required to construct a dairy operation. California has excellent hay quality and is able to produce alfalfa yielding seven to nine cuttings a year. California producers are excellent managers. They are also very progressive and extremely willing to adapt to new technology. The California dairy industry has had the cooperation of the California Department of Food and Agriculture which has provided regulations that are relevant and applicable to production and marketing conditions in California.

This does not mean that milk prices are high in California. In fact, the class I milk price in California was 44 cents below the national average in 1980, 91 cents below the national average in 1983, and 31 cents below the national average in 1984. The California dairy industry is very efficient. The California producers need an environment where they are able to adopt new technology, where they can grow to spread fixed costs and where they have the freedom to make choices. This industry is competing for labor, capital, land, and management resources with more than 240 different commodities. In order to compete effectively, it is extremely important that the dairy industry be allowed to progress by adopting new technology and by being allowed to grow in order to achieve an economic sized unit.

There are other problems, such as the water situation, pesticides, herbicides, water quality—all these factors can have a significant impact not only on the dairy industry, but all of agriculture.

There are a number of significant new innovations that could significantly affect the costs of production in milk output. One of these concepts is egg flushing and embryo transplant. This concept could significantly increase the genetic potential of every dairy herd in the United States. As is true in every other agricultural industry, the dairy industry has its innovators who are likely to be the first to adopt new technology like egg flushing. And certainly California as been a leader in this regard. But it is important to note that technology of this sort not only reduces costs, but it also expands output.

The whole concept of gene splitting could also eventually have a dramatic impact on milk output and on the costs of producing milk. It is difficult to predict how soon this whole arena of work might have an impact on the U.S. dairy industry.

There are other concepts, such as three-times-a-day milking and hormones to increase milk output. But there are some questions about these new concepts. More research is needed in feeding and nutrition before these factors can become an economically feasible practice, in our opinion.

What kind of program is needed? The U.S. dairy industry is suffering from irresponsible price enhancing policies of the late 1970's and early 1980's. The question is: How do we adjust enough resources out of the dairy industry to bring supply and demand back into balance? There are, and always have been, two basic approaches: one is supply management; and the second is price.

Our association, along with most producers in California, favors the price approach. Price is an excellent allocator of resources. When production is too large, the price should be lowered. As a result, the least efficient resources or dairymen tend to be forced out of business and the most efficient resources or dairymen remain. The lower milk price not only affects the supply side, but also the demand side. Consumers tend to consume more products at a lower price.

We are opposed to supply management because such an approach impedes efficiency, impedes growth, stifles progress, and tends to keep inefficient resources in business. It tends to restrict the adoption of new cost-reducing technology because almost all such technology also tends to expand output. A mandatory base approach freezes production regionally, and almost in all cases, the value of bases tend to be capitalized into fixed assets. Once in place, it is difficult to remove such a program. It also provides an artificial barrier to new entry. A supply management approach would be a strong deterrent to California's dairy industry and would make it difficult for the California dairymen to compete with other agricultural enterprises for the land, capital, labor and management resources in California.

We, however, support a continuation of a government purchase program for butter, powder, and cheese. We believe that such a program, if developed on an economic basis, can help to stabilize the dairy industry and benefit not only dairymen in this country, but also consumers. Because of international programs of subsidy, it is also essential that the import quota program be maintained in this country. In principal, the support program needs to reflect changes in supply and demand. If the Secretary of Agriculture has sufficient discretion, we believe that a support program can be developed that will maintain a market clearing support level that will minimize Government purchases and Government expenditures for dairy products.

The permanent dairy legislation which was passed in 1949 worked relatively well from 1949 through 1978. Government purchases of dairy products during this period averaged only 4.6 billion pounds of milk equivalent. From 1972 to 1978, Government purchases averaged only 2.8 billion pounds per year. In the last 5 years, Government purchases of dairy products averaged 12.2 billion pounds of milk equivalent. This was due to the price enhancing policies of the late 1970's and early 1980's. The Secretary of Agriculture did not have the needed discretion to bring about the needed adjustment in the dairy industry during this period. From 1949 to 1976, the Secretary of Agriculture had the discretion to set the price support level between 75 to 90 percent of parity. During this period of time, the price of milk was high enough at 90 percent of parity to attract resources, and it was low enough at 75 percent parity to drive resources out of business. This is why the program worked pretty well from 1949 to 1978.

It is important to recognize that because of productivity changes in the dairy industry the old dairy parity level of 75 percent would not be low enough to drive resources out of the dairy industry today. We would recommend that the old dairy parity program be revised. In any price support program, the key is enough discretion be left in the Secretary's hand so that appropriate adjustments can be made to ensure an adequate, but not more than adequate, supply of milk and dairy products.

What course of action is recommended? First, in principle, we strongly believe that price should be used to bring supply of, and demand for, milk back into balance. We think that the adjustment should be made over a 1- to 3-year span. It took a while to develop the problem, and we need some time to solve the economic problems of the dairy industry. A price solution will mean that the most efficient resources will remain in business and that milk will be produced in areas where milk has a comparative advantage. Dairymen will be free to grow into economically efficient sized units, and they will be free to adopt new cost reducing/output increasing technology. Such an approach will permit the California dairymen to compete effectively with other agricultural enterprises for scarce resources.

We have the following proposal: The price of milk would continue to be supported at $11.60 per hundredweight on October 1, 1985, which assumes that the Secretary of Agriculture will reduce the price of milk by 50 cents on April 1, and also 50 cents on July 1, 1985.

Second, the producers would share in the cost of the dairy price support program. The Federal Government would pay for the cost of purchasing 4 billion pounds of milk for use in the school lunch program and various other foreign and domestic programs. The dairymen in this country would be assessed for Government purchases beyond 4 billion pounds of milk equivalent. The cost of the Government purchase program is estimated to be 15 cents per hundredweight per billion pounds of purchase. This program, if implemented, would minimize the Treasury cost of the dairy price support program. Additionally, an assessment of this sort would provide the dairymen a further price signal to reduce milk output. The assessment would be placed on all milk on a per hundredweight basis, and it should be assessed on all milk in the country. The size of the assessment would be based on the projected cost and volume of dairy purchases beyond 4 billion pounds of milk.

Three, in spite of the fact that I, as an economist, look at the paid diversion program as a temporary solution of a long-term problem, as a means of compromise with other dairy concerns around the country, our dairy cooperative would be willing to support a volunteer paid diversion program only when dairy surpluses become very large.

I want to interject here that most of the rest of the dairy industry in California does not support this particular concept, but our dairy cooperative would be willing to make that as a compromise position.

Our proposal is that a voluntary paid diversion program could be implemented on October 1, 1986, if Government purchases exceed 7 to 8 billion pounds of milk equivalent. If implemented, the voluntary paid diversion program should remain in effect for a year, or until projected purchases drop below 4 billion pounds of milk equivalent. There would be a separate assessment to pay for the incentive payment to producers who sign a contract with the ASCS office to reduce milk shipments between 5 and 30 percent below base. The base would be the production in the last four quarters.

The price support of $11.60 per hundredweight would remain in effect until Government purchases of dairy products drop below 4 billion pounds of milk equivalent. Once this happens, then we would support the new dairy index as developed by the National Milk Producers Federation, which is designed to move the price of milk up or down depending upon the changes that occur in the indices used in the new dairy index. The National Milk Producers Federation program also contains a productivity index, and we believe that this concept should also be incorporated into the pricing program.

Finally, the National Milk Producers Federation includes a supply-demand adjuster. The supply-demand adjuster would raise the economic formula price when purchases are low, and it would reduce the economic formula price when purchases are high. The supply-demand adjuster includes an automatic adjuster, but it also provides some authority to the Secretary of Agriculture to move prices up or down depending upon the level of Government purchases.

The paid diversion program calls for price reduction of 50 cents per hundredweight on April 1 and July 1, 1985, if certain conditions exist. Based upon current supply-demand conditions, we believe the Secretary will implement the price reductions. We recommend, however, that the fat side and the solids-not-fat side be treated differently this time. The most serious surplus problem is on the solids-not-fat side. The utilization of nonfat dry milk powder has been reduced dramatically because of the high support price on powder. The Government buys enormous quantities of nonfat dry milk powder and also has large volumes of powder in storage. At one time, the skim price was relatively low and the fat price was relatively high because of the relative support price levels for butter and powder. Later on, the support price for powder was raised relative to butter to encourage more manufacture of nonfat dry milk powder. In later years still, the price of support changes were equally weighted between butter and nonfat dry milk powder. It is now time to again consider changing the relative value of fat and solids not fat. The USDA has about 1.4 billion pounds of uncommitted stocks of nonfat dry milk powder, compared to 529 million pounds of butter. It is our opinion that both price support cuts should be placed on the solids-not-fat side.

Mr. COELHO. Dr. Gruebele, it is time to wrap up.

Mr. GRUEBELE. OK, and I am wrapping up.

We believe that these price adjustments would help encourage the commercial use of nonfat dry milk powder and move the pricing system toward a proper economic relationship between fats and solids not fat.

I appreciate this opportunity to discuss the California situation and position relative to an economic solution to the milk pricing problems in the dairy industry. Thank you very much.

[The prepared statement of Mr. Gruebele appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much.

Dr. Harold Harris, you may begin.

STATEMENT OF HAROLD M. HARRIS, JR., PROFESSOR, AGRICULTURAL ECONOMICS, CLEMSON UNIVERSITY

Mr. HARRIS. Mr. Chairman, I am Harold Harris. I am a professor of agricultural economics at Clemson University, which, for those of you who don't know, is in South Carolina.

For many years, dairy farmers in the South didn't feel like the price support program had much impact on them. Today, after numerous changes in the program in recent years, they are painfully aware of the program's impact on their pocketbooks. South Carolina dairy interests engaged in a semisuccessful lawsuit against the Secretary of Agriculture over the assessment program, and the dairy diversion program caused severe problems in the Southeast last year.

I would like to address my remarks to four key considerations. The first point is that the industry around the country differs widely. Because of these unique characteristics, alternative programs choices have different impacts. The South is particularly vulnerable to certain policies because of its characteristics, and I would like to comment on that. I think that in devising a new dairy program, these regional differences should be taken into account.

A second point is that, while concrete data are not readily available, and the data is old by the time we get it, the financial situation in Southern dairy farming appears to be deteriorating rapidly. Dairying, as has been mentioned, has been a more attractive alternative—perhaps a better description in the Southeast would be a less worse alternative—to other farm enterprises. The causes of the recent deterioration in financial conditions are multifaceted, but many can be traced in large part to the Federal budget deficit. The sooner the problem with the deficit is remedied, the sooner the financial problems in the farm sector, including the dairy industry, will be eased.

Third, the biggest problem, in my view, facing the industry, both in the near term and in the long term, is excess capacity. As has been mentioned here, with some of the new technological developments that are even now coming onstream, the potential for excess capacity is likely to increase. I think that a dairy program that is flexible enough to deal with this increase in productivity should be designed.

Fourth, and a very brief comment, I would like to call your attention to the fact that, as you know, the dairy program is much broader than just the price support issue, which is foremost on our minds today. These interrelated laws and regulations include laws dealing with cooperatives, import quotas, dairy product exports, and the Federal milk marketing order program. In particular, Congress and the Department of Agriculture are likely to be pressed in coming months to realign the transportation differentials currently in effect in Federal orders.

My comment on this issue is simply to say that I believe this issue is much more complicated and complex than it will often be presented to you, and I would urge caution, further study and hearings through the order process prior to taking action on this.

Just to elaborate on these points then, first, as to the characteristics of the Southern industry, we are a fluid market, there is little manufacturing milk produced in the region, and the industry is, in fact, a deficit-producing region consuming more dairy products than it produces. Indeed, several of the Southern States are deficit in the production of fluid milk. Our average farm size is large compared to the national average, though much below the types of operations that Dr. Gruebele talked about in the West. Based on a study of regional economists, it indicated that the herd size is close to 100 cows. It varies by State. There is a table included in my prepared remarks. This would exclude Florida, which has much larger operations.

The typical farm attempts to grow all the forage it uses, but it is primarily dependent on purchased grain and concentrate. So there is a large land base associated with this conventional type of facility.

Investment per cow is high. It averages in South Carolina somewhere around $6,000 to $7,000 per cow. And there is a typographical error in my prepared remarks there. It is certainly not $71,000, it is $6,000 to $7,000 a cow.

Mr. COELHO. We will correct that error.

Mr. HARRIS. Thank you, sir.

Our costs for producing milk are higher in the South. The main reasons for this are the heat stress, the humidity, the lack of quality forage and higher feed prices. Our prices are higher. The USDA studies show that our average returns are lower in the region, averaging approximately $2 below that of the Upper Midwest, as far as a 1981 to 1983 average based on USDA study.

As a consequence, it is not surprising that, since Southern dairy farmers receive only indirect, not direct, benefits from the price support program, they tend to favor market oriented policies. These characteristics were what prompted a larger proportionate signup of milk under the diversion program in the South. It led to local shortages of milk. I would take a somewhat different view of this situation from my colleague, Dr. Cropp. Since milk was still being purchased by the CCC from the Upper Midwest at the time we needed the milk in the South, it seems to me that there is something wrong with the system. It means that Southern farmers have to not only pay $3 or $3.50 transportation charge into the region, but also a give-up charge of up to $2.

In short, I think we need a national dairy program, but I think that programs that penalize some regions with respect to others should be avoided if possible.

Turning quickly to the financial conditions of Southern dairy farmers, we conduct an ongoing study of cost and financial situations of dairy farmers in South Carolina. Our statistics are currently a year old. We are updating the statistics for last year. But based on our studies, we find that one-half of this group of farms which we feel are fairly representative of the South Carolina industry fall into the category of financial hardship as defined by the debt-to-asset ratio of greater than 0.4. I have included a table which summarizes some of the information from this. The highly leveraged group has to pay around 40 percent of milk sales to the payment of interest and principal on debt. And this just simply erodes all the cash-flow from those types of operations.

I have also included some data that is even older based on our survey of Southern dairy farmers, and it would indicate that, given the difference in time, this is fairly typical of the entire region.

The Federal budget deficit, again, in my view, must bear a large burden of this current deteriorating financial situation in the industry. Dairy products are not an export commodity, but declining exports have driven down farm prices and, thus, land values and agriculture in general. So land used in dairy farms, which is the security behind most dairy farm debt, has thus declined. Meanwhile, high interest rates, which are also caused by the deficit, are particularly devastating in highly capitalized industries, such as dairy, and this is particularly so with respect to the type of industry we have in the South.

Each of the people who have preceded me, I think, have talked about the excess capacity problem. I agree that this is the biggest problem facing us today. To oversimplify, we simply have too many dairy cows, too much equipment devoted to the production of milk, and the painful part of this, Mr. Chairman, is that we have too many dairy farmers producing milk. This excess capacity problem has two elements. There is a near-term problem—that is, how do we make the transition. And I think this is a very critical one. We have a pent-up need for resources to leave the industry.

In South Carolina, our producer numbers trended downward each year to about 5 percent a year. I agree with Dr. Gruebele that in the late 1970's erroneous price signals caused this net exit of resources to cease, and we have virtually no decline in producer numbers since that point. I feel that this transition process should bear an important part of your attention as we make these adjustments.

Also, the potential for excess capacity, in my view, is likely to become greater as we move toward the 1990's. I think the challenges is therefore to design a long-term dairy program that is flexible enough to meet the needs of likely future development.

Presuming that the goal of such a program is stability and a price and an income floor, I would suggest that the type of alternatives that should bear key attention as you debate this issue would be a price-moving mechanism based on cost with a supply/demand adjustment.

Thank you, I appreciate the opportunity of being with you.

[The prepared statement of Mr. Harris appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much. We appreciate your willingness to work within the time, Dr. Harris.

Dr. Jacobson, would you take over.

STATEMENT OF ROBERT E. JACOBSON, PROFESSOR, AGRICULTURAL ECONOMICS, OHIO STATE UNIVERSITY

Mr. JACOBSON. Thank you, Mr. Chairman.

My name is Robert Jacobson and I have been on the agricultural economics faculty at Ohio State University for about 20 years. My intent is to briefly address three areas: First, an overview in significant trends in the dairy industry nationally; second, three of the critical dairy policy questions we have to address ourselves to this year; and third, some short-term projections that emphasize the challenges in front of us in dairy policy.

In Ohio, we identify ourselves as the most eastern Corn Belt State. The 6,130 grade A dairy farms in Ohio rank among the smallest commercial dairy farms in the United States. In 1983, for example, the average daily quantity of milk shipped per dairy farm in Ohio's two large Federal order milk markets was 1,670 pounds per day per farm.

Our 2,500 grade B farms in Ohio are even smaller, averaging about 400 pounds of milk per day.

Indiana, Michigan, western Pennsylvania, Kentucky, and West Virginia also fit the Ohio mode in terms of producer size.

Now, I don't really want to get into much more regionally. I think that many of the things that Bob Cropp said with respect to

Wisconsin and the Upper Midwest generally also fit the east north-central States to some extent.

With respect to some national considerations, first on production, and if you have a copy of the testimony, I want to highlight table 2, cow numbers—production per cow on total milk production in the United States. Using the year 1945 as a base period, because that was the year of record milk production in the United States, we have gone from over 25 million cows, dairy cows, in that year in our national dairy herd to 10,840,000 milk cows in 1984.

At the same time, production per cow has increased from about 4,800 pounds to the 12,500-pound level recorded in 1984, so our total milk production for the most part has not changed in any substantial terms in that period.

The 1940's heralded the introduction of artificial insemination. Production per cow had been static at about the 4,000-pound range for decades prior to that time and then it began its climb up to the present level.

One important point is that if no other supply factors than production per cow had changed over the 1945 through 1984 period, the number of dairy farms required to supply our markets in 1985 would be only 43 percent of the number of farms that produced milk in 1945. The absolute certainty that future increases in production per cow will continue to place heavy downside pressures on milk cow numbers and dairy farm numbers helps focus the policy issue.

A second measure on the national trends is simply the huge restructuring of the milk producer sector in this last four decades. In 1945, there were 4,481,000 farms in the United States with milk cows on them, or an average of 5.6 cows per farm. This number has dropped by over 90 percent through 1984. In 1984, we had 285,740 farms with milk cows or an average of 37.9 cows per farm.

The number of farms with milk cows is not the best measure of what describes structure of the milk producer sector. Only about 60 percent of the dairy farms in the United States with milk cows on them can actually be characterized as commercial dairy operations. However, the data do reveal that even through this entire post-World War II period with the Federal dairy programs that have been operative, including price supports and the Federal milk market order program, the import quotas and some antitrust protection for dairy co-ops, the fewer and large phenomenon has continued to move at a rapid pace.

Yet, the industry continues to be a family-farm industry. I do not know of a single dairy farm in the State of Ohio, for example, that can be construed as anything other than a family farm enterprise. I think this also is the case in the Southwest, in the West. Even with the much huger dairy operations for the most part, we are still identifying them as family farm operations.

The third and last national trend I would want to make mention of here is demand. When we look at the market for U.S. milk production, we have to confine ourselves almost exclusively to the domestic market. Exports of daily products are very limited, generally less than 2 percent of our production, and show little potential due to relatively high domestic prices, GATT policies that protect market shares of other exporting countries, and limited total international dairy trade.

So, we have to look at the domestic market, and that becomes basically a function of population growth and per capital consumption.

In recent years our population has been increasing about 1 percent a year, about 2 million people a year. At the start of 1985 it stood at about 237 million people. Per capita consumption figures are identified in table 2 on page 5. Over the 1970 through 1983 period, there are two series there, per capita consumption commercial sources, and per capita consumption all sources. I think the more pertinent one to look at is the commercial sources. That is milk and dairy product moving in normal commercial channels.

An increase in per capita consumption from commercial sources occurred in 1984, probably to about 526 pounds, but the data haven't been reported yet. The point is, as we look at that 1970 through 1983 period, we appear to be in an extended period of stable overall per capita consumption of dairy products.

The national generic promotion effort now under way is accomplishing some positive things, but as a longrun activity its key achievements may be greater in terms of preventing erosion of per capita consumption as compared to making any significant increase in per capita consumption. I don't think we can come anywhere close to the idea of thinking that we are going to consume our way out of the excess of milk supply over demand.

Now, turning to some dairy policy questions, I would like to limit them simply to dairy price support because I think it is far and away the critical issue here in 1985. We have had an ongoing price support program for milk since it was authorized by the Agricultural Act of 1949. For the most part, it has been a good thing. I think that echoes what Dr. Gruebele and some others here have said. It has lent price stability to the dairy industry even while it permitted the resource adjustment, restructuring and efficiency gains that I noted here a couple of minutes ago.

Furthermore, except for the soon-to-end diversion program, it has accomplished these purposes with minimal involvement of the Government in producer decisionmaking. Unfortunately in the 1979 through 1983 period, support prices stood at high levels that in the absence of production controls generated costly surpluses; and I guess that is why we are here today.

There are three questions that I would like to raise. The first one is, should we continue to have a dairy price support program? And I would like to make that question a little bit more precise in terms of what should be the objective of the price support program. We hear a lot of fat words on objectives. On the one side, we hear parity or family farm or adequate supply or price enhancement or price stability. I think these all fit one general kind of an objective.

On the other side, we hear market oriented, or safety net, or ease adjustment, or price stability, or encourage demand. While we probably all would like to see all of these objectives achieved, several are in direct conflict with one another. So, we have to make a choice.

The choice is further defined by recognizing that all price support program that carry price enhancement will necessarily mean production controls or base plans at the farm, while a market oriented support price basically can avoid the need for production controls.

In most years in the 1950 through 1977 period, the dairy support price basically reflected a market oriented level, evidence being that we did not generate chronic surpluses. Recently I participated in a group effort with other agricultural economists that recommended a market oriented support price. The market oriented support price should be a safety net and, furthermore, a safety net price, as we define it for milk, is a longrun price which over the course of 10 years or more should average below the longrun market clearing price by 5 to 10 percent.

While the support price would be influenced by market conditions, it would always be there as an assurance to producers that market disaster was not in the offing. In my view the safety net as defined is a reasonable objective for daily price support. But I also recognize that as we look ahead to the dramatic changes in milk production and technology, a safety net price could mean more rapid adjustments in the dairy sector than we are willing to accept. The toughest question to answer in dairy price support is, what should be the objective.

The second question concerns what concepts should we use to regularly adjust the support price? For example, at the start of a new marketing year on each October 1, what measure do we look to in order to come up with a new support price? Parity has been a historic measure. We have heard it dismissed, and I agree. Alternatives include cost pricing, either a dairy-specific parity or a cost-of-production index. A second one would be a market standard, supply-demand adjust mechanism. A third one would be legislation. This Congress, for example, has legislated the current $12.60 support price. Fourth could be an annual national public hearing to establish the support price.

In my view, and I would concur, again, with other panel members here, a combination of a cost-pricing mover and a supply-demand adjuster mechanism makes the most sense. The cost pricing mover could either be a carefully reviewed dairy parity index or an annual cost of production study along the lines of those issues by the U.S. Department of Agriculture.

No automatic price mover ever has been or ever will be perfect. Market conditions cannot be ignored in the price support decision, therefore, a supply-demand adjuster can be an effective means of adjusting the cost price and finally announce a more realistic support price.

The third question that I think is critical is, what kind of a program should we use to implement the dairy support program? The alternatives that I believe are most relevant at this juncture are outlined here on page 10. The first one is Commodity Credit Corporation purchases as we have seen them historically, with a market oriented support price, no supply management.

The second set here, under B, CCC purchases, again, with enhanced support prices. That therefore calls for production controls. They could either be voluntary supply management with economics incentives to participate. That is what we have in the diversion program, that we are seeing the end of in a few days. The second one would be mandatory supply management, with economic penalties for exceeding production.

The third set would be target price/deficiency payments, as we have been hearing more or with respect to dairy more recently. We could have those with either low target prices without supply management or with high target prices with voluntary or mandatory supply management again.

Any of these alternatives is workable. Clearly they have different objectives, market orientation versus price enhancement. That is why it is so essential that the objectives question be answered early on. Historically we have found ourselves using alternative A exclusively. Instigation of the 15-month diversion program on January 1, 1984, found us resorting to alternative B–1. And now the question is, where to from here.

I do have a couple of pages here contrasting CCC purchases with the deficiency payments approach. Let me offer these, in both cases assuming a market oriented support level. The arguments for CCC purchases can quickly be advanced as, A, minimum Government involvement with producers; B, makes necessary products available for school lunch and other programs; C, there are reasonable program costs unless support prices get too high; and, fourth, there is a proven history of performance, especially with respect to price stability at the producer level and finally even at the consumer level.

The arguments against include the fact that CCC purchases place the burden of price support for all milk on three products. We support 100 percent of our milk price with 50 percent of our milk utilization. And those products are butter, cheese, and nonfat dry milk.

Second, it makes it too easy to sell to the Commodity Credit Corporation as compared to having to seek markets.

Third, the purchase program extends price benefits to producers on a hundredweight basis, therefore, larger volume producers get more benefit proportionally.

Fourth, I don't have it in the paper, but the program can be costly, as we have seen, when the surpluses are excessive.

With respect to target prices and deficiency payments, the arguments for include: First, it establishes market clearing prices for all dairy products and therefore a strong demand emphasis. Second, it would increase pressures on the industry to promote, merchandise, and market dairy products. Third, it would support producer income directly rather than use product prices to support income. Fourth, they could be more directly geared to extending income benefits on a need basis as compared to a volume basis.

The arguments against are that the deficiency payments have the potential for being a costly program unless tightly specified. They would be disruptive for some time to the manufacture dairy products industry. And they have been used in other commodity programs in the last decade, for example, and they have not really resolved the problem. So, those are some of the considerations.

I am sure there are other arguments for and against these: price support in the instance of CCC purchases and income support in the instance of deficiency payments. My inclination would be to stay with CCC purchases if a market oriented support price is adopted as an objective. If price enhancement is the price support objective, then deficiency payments with supply management make more sense because we must keep dairy products competitive in the marketplace in the long run.

As a final consideration here, I have some short-term projections to the year 1990 on demand, supply, and structure. As noted previously, aggregate commercial demand is a function of population and per capita consumption. Assuming that we maintain our 1 percent population growth through 1990, we will obtain a population in that year of 250.5 million. Assuming a per capita consumption level of 525 pounds in the commercial market, the total demand for milk in the United States will be 131.5 billion pounds in 1990. As an option, if you want to think per capita consumption is going to increase, the commercial market would be close to 138 billion pounds.

On supply, in order to predict future milk supply, the normal process is to estimate demand and assume that in the long run supply will equal demand. Production per cow in the United States in 1985 averaged 12,500 pounds. A 300-pound increment each year, or an increase of slightly over 2 percent reflects a relatively cautious projection and would place us at 14,300 pounds per cow in 1990.

In 1990, a national dairy herd averaging 14,300 pounds per cow would need only 9.2 million milk cows. That is only 5 years away, 9.2 million milk cows.

There are some other things here on structure, suggesting that in the next 5 years we may need only about 60 percent as many commercial dairy farms as we now have. The technology driven push that continues to move supply faster than demand will bring on much greater pressure for supply control from the producer sector. That is why it becomes more important now that we try as best we can to decide on what should be the objective of daily price policy.

Thank you very much.

[The prepared statement of Mr. Jacobson appears at the conclusion of the hearing.]

Mr. **Coelho**. Thank you.

Mr. Jeffords, do you want to introduce our last panelist?

Mr. **Jeffords**. Yes. Our last panelist is Dr. Novakovic of Cornell, we believe the outstanding agricultural university, in the sense other than the University of Vermont. It is a pleasure to have you here. I look forward to your testimony.

You certainly have been one of those that we have relied up in the Northeast to tell us what is going on and what we ought to be doing. Welcome to the subcommittee.

STATEMENT OF ANDREW M. NOVAKOVIC, ASSISTANT PROFESSOR, DEPARTMENT OF AGRICULTURAL ECONOMICS, CORNELL UNIVERSITY

Mr. **Novakovic**. Thank you, Mr. Jeffords. Thank you, Mr. Chairman.

I am Andrew Novakovic. I am assistant professor in the department of agricultural economics at Cornell. I have been employed there since 1979. My responsibilities there are entirely related to research extension and teaching programs pointed toward the dairy industry, dairy marketing, and dairy policy in particular.

I might also mention that my interest in the dairy industry stems from being a native of Wisconsin. So, I am a little bit familiar with that area.

I am afraid I may have won the award for bringing the most paper. Perhaps I should apologize for that.

Mr. Coelho. That is not a problem with us as long as you don't try to read it.

Mr. Novakovic. I am going to try to be the shortest speaker.

I would like to at least make you aware of what these documents are, if you or any of the other listeners would be interested in pursuing them furthe[illegible] One document is this one, dairy industry and dairy policy in 198[illegible] Much of that is a collection of USDA numbers which I think we [illegible]obably are all familiar with. I won't belabor that. This publication also does include some projections for 1985. I would only comment that they are really quite comparable to Professor Cropp's. I think I am projecting somewhat higher production, perhaps somewhat lower consumption, slightly higher net removals for the year. Although we worked on them independently, I think you will find they are really quite close.

Another publication which I brought with me is this document which is part of a periodical that we put out called Dairy Marketing Notes. This particular publication includes an article that I wrote in which I tried to isolate the effects of the separate parts of the Dairy Production Stabilization Act: what did we get from the assessment, what did we get from the diversion program, what did we get from the price cut. If you would like to talk about that, I would certainly be happy to; but I won't do more than just mention that at this point.

Another paper that I have brought with me is an attempt of mine to try to get a handle on what might happen if we have a continuation of the support program but looked at different price levels between now and 1990. Suppose we held it at $12.10 as of April 1. Suppose we let it drop to $11.60 as of July 1. Suppose we let it drop to $11.10 in 1986. Again, I won't ask you to go and look at tables and numbers at this point.

I think the one comment I might make with respect to this is this. Obviously, all these sorts of projections have to have lots of assumptions. The assumptions may prove to be wrong; in fact, undoubtedly they will not be exactly right. But it would appear from this work that it is a little bit premature to be talking about any sort of price increase certainly. But on the other hand, I think if we are willing to abide with a few years of net removals and expenditures that might be higher than we would ideally like, I don't think we need to be talking about very drastic price cuts either.

Another set of leaflets that I have provided is actually something that is not my publication; it is one that I contributed to. Four of the other people at this table also have contributed to this publication as well as three people not present. This publication, called Dairy Policy Options for 1985, tries to discuss some of the various generic options that are available, without really trying to promote any particular one, but at least to try to describe what sort of effects we might obtain under different programs.

[The staff papers and leaflets are held in the committee files.]

Mr. **Novakovic**. My formal remarks cover three sections. I will try to give you an idea of what I think are the highlights at least of these remarks.

As a person residing in the Northeast, I want to talk a little bit about the Northeast dairy industry. I think up front I want to say, although I am a resident of the Northeast, I certainly don't presume to speak for the dairy farmers, for the dairy industry of the Northeast. Cornell doesn't take policy positions. And I think, while I am happy to try to lay out what I see as some of the conditions facing the dairy industry, I certainly don't represent our industry in matters of policy.

In general, there are many ways, I think, to consider the situation in the Northeast. I guess what I would like to offer is perhaps maybe a longer run view. Let me just make a quick comment about the short run. The dairy industry in the Northeast and everywhere else, I think, has enjoyed some fairly profitable years during the 1980's. I think last year wasn't a bad year. I think this year, at least until July 1, probably will be a fairly good year, too, in many ways. On the other hand, I think it is also very clear that the situation is deteriorating. And I think it is likely to deteriorate even more so before we work ourselves out of the problem of the current surplus.

However, I think, if we look at the longer run, at least for the Northeast dairy industry, I think we have to be careful to keep some perspective on the direction that we are going. I think the conditions certainly exist, the capability certainly exists for the Northeast dairy industry to survive this current period of stress and even prosper. They are some natural things going for the dairy industry in the Northeast. I think, as you look at the Northeast from a production side, it is a sensible place to make milk. Dairy cows are ruminant animals, and we are pretty good at producing hay.

I think the Northeast has in some sense a comparative advantage in that sort of conventional dairy farming. In fact, it makes a lot more sense for us than many other activities.

When you look at the consumption side, we, as you all know, are right next door to a very large population center stretching from Boston down to this area. We see that market as an opportunity. I am not sure it is an opportunity exploited as well as we could. But I think those two factors are certainly reasons to believe that the Northeast is going to be in it for the long haul.

I might point out to you, if you want to try to think about the Northeast as a dairy producing area, we are the second largest dairy producing area. In many ways the Northeast is amazingly average. We have herd sizes, productions per cow, price levels, product mixes produced in the Northeast that correspond very closely to the national average.

Yet, it is also important to remember that the Northeast is, in fact, although the second largest dairy producing area, because we live so close to this large population center, we are, in fact, a net importer of dairy products. The exact number is hard to put a finger on. Apples and oranges don't add real well when you are trying to add up butter and powder and make them equal milk.

But we are, I think it is quite clear, a net importer. And that is a position or a characteristic that I think is important when we consider the implications of price changes in the Northeast as well as marketing opportunities in the Northeast.

I would like to comment just briefly about—make some general observations about policy objectives versus policy tools or policy actions. I am sure that this is a comment that you gentlemen have heard made before, and I don't mean to offer pabulum. But as I sit in my ivory tower, it strikes me that one of the first things we really need to struggle with, one of the things we need to struggle with before we really start talking about dairy parity this or cost of production, or similar approaches, what is it that we really want to accomplish with these programs.

Talking about policy objectives I think really needs to come before talking about policy options. I won't try to say what the objectives should be, but there clearly could be several. I think many times agricultural economists may be criticized for not giving very lucid comments about policy options. But I think we can discuss what kinds of options could best serve us, given different objections. I think if we can approach the question of policy options from the standpoint of what are we trying to do and what is the most effective way to do that, then we can perhaps be a little bit more helpful in suggesting options.

Let me just throw out some ideas for examples. Some folks would say the primary concern, certainly the primary shortrun concern may be to reduce Government programs. Well, this is sort of a trivial answer, but obviously the most effective way to do that is just get rid of your programs. The next best way might be to just reduce program benefits. And that is probably the one that we would be most interested in talking about realistically.

Another way to do that is through assessments, but that doesn't really reduce the cost; it just moves the cost to somebody else.

Suppose we want to have a program that results in low consumer prices? Well, actually, I think probably the best way to do that is to have a target price program that has a fairly high target price. That surplus will have to move on commercial markets. And that will mean lower prices. If that's what we want, that's a good way to do it.

If our goal is to preserve the current structure of dairy farming, whatever that structure may be, in the short run the best way to do that is probably through a supply management program. Supply management programs have a tendency to try to freeze things where they are. And that is certainly a way to preserve that structure. I think that may raise some questions about longrun consequences, whether or not indeed we do want to support that kind of structure over the long haul. But certainly in the short run that would be a consideration.

If our goal is to set up farm price at some level based on some criteria, I think the price support program is certainly an efficient way to do that. If we have some idea of what it is we really want to accomplish, what our most important priorities are, I think we can begin to narrow down some of those options.

Finally, I would just make a comment about the notions of flexibility and security. Certainly within the framework of our current price support program, these two concepts, I think, have been somewhat at odds with each another. We want to provide security but we also want to be flexible. I think, in fact, probably the most important benefit of the price support program over the last 30 years or more is the security aspect. In other words, it is not a program that says we're going to have a high price and all farmers are guaranteed a profit. You really couldn't even do that if you wanted to, guarantee a profit. But it is security in the sense of creating conditions whereby a buyer of milk can offer farmers a fairly certain price and be fairly certain about having the ability to pick up that milk on a regular and daily basis.

That security, I think, is really perhaps the most important benefit of the price support program.

That type of security clearly has to be balanced against flexibility to respond to changes. It is very clear that changes do occur: changes on the demand side, changes on the production side. In fact, agriculture in general has an amazing history of changes at the farm level. In fact, that is probably why we have a lot of our problems. Our production increases. Our productivity increases, change at a more rapid rate than our consumption increases.

I think the question we have to ask ourselves is, how can we balance the benefits of that security with the need to be flexible? I think for dairy policy that may mean we have to be willing to go with the flow to some extent, but we also, at least in the short run, have to provide some assurances.

I think the key word that I would suggest in that regard may be predictability. We don't have to provide absolute firm guarantees. But I think, at a minimum, dairy policy should be, must be predictable.

The last few years, I think many of our problems have occurred because it hasn't been predictable, with so many changes so rapidly. I guess I would encourage this body to endorse as enthusiastically as possible a program that at least is predictable for a period of 2 years or more, the longer the better.

On the other hand, price supports, prices in general really work at the margin. There are much large macroeconomic characteristics of the farm that really influence, even more than price level, how much output we get, how much milk is consumed. We can't override those economic forces. We can't change the underlying characteristics of the industry. I think we do have to have programs that are willing to adjust to those changes. And I think as we look at the kinds of changes we may face in the next 5 or 10 years, they could be even more dramatic than the changes we have had in the last 10 or 20 years.

Many of you have heard of the work that is going on at Cornell and elsewhere on bovine growth hormone, perhaps the most dramatic example, but it is only one of many examples that will affect production on the farm. And I think we do have to have a price support policy that will be able to react and adjust and respond to those changes while still providing some predictability and some security in which dairy farmers can operate and in which others involved in the dairy industry can operate.

Thank you.

[The prepared statement of Mr. Novakovic appears at the conclusion of the hearing.]

Mr. **Coelho**. Thank you very much. I appreciate the input from all five of you.

One word I kept hearing from all of you was a predictable program. We need to have a program that farmers can depend on and I guess everybody else can depend on. I know that all of you have dealt with Members of Congress over the years. We have a tendency to react to what our constituents want. I can guarantee you that over the last few years our constituents have wanted to change the program repeatedly. So, hopefully, we could come up with something that would satisfy that. I happen to agree with you on that.

Second, I get a feeling from what most of you have said, if not all of you, is that the program has been successful but we need to get on to something that is more permanent.

Third, all of you say that we are going to continue to have more problems. There is going to be more production, et cetera.

There is only one optimist out of five economists. You seem to feel that the Northeast area has got all kinds of positive things to say for itself. I told my colleague from Vermont that he shouldn't be complaining to me anymore. You paint a very rosy picture for the future—no comments yet—a very rosy picture. So, when we write this dairy bill, we will take into consideration that the Northeast is well off and they don't need any special consideration. So, I appreciate those comments.

But I felt your general comments were good. What we are trying to do is to have a base so that we can move from there. I appreciate your input on that.

Mr. Jeffords, do you have any questions?

Mr. **Jeffords**. Yes; I will, in view of your comments, focus my attention on perhaps the area of the country which seems to be giving us the most difficulty, California, just so we can have our own little tit for tat here.

Dr. Gruebele, I would like to get a little bit more information about the situation in California, much of which your recommendations were on, which I find interesting if not agreeable. I would just like some information on why it is that California seems to be going one way and the rest of the country the other way as far as milk production. I have some specific questions which might be of help to me. What percentage of your feed is grown through irrigation?

Mr. **Gruebele**. Thank you, Mr. Jeffords. A very large percentage would be. Of course, California depends on irrigation. There are a few areas perhaps that depend only on rainfall, but most all of the State is dependent on irrigation, very true.

Mr. **Jeffords**. So, when we get into the situation of cost of production, and obviously if California was increasing their production and selling a larger percentage of their milk to the CCC than any other area, as compared, for instance, to the Northeast, which practically sold none during the diversion program, is not a lot of that due to the Federal subsidies, which reduce the cost of production for feed?

Mr. **Gruebele**. I wouldn't say so.

First of all, let me correct one problem. I did mention it in the paper, but I will allude to it again. I think California, as is true of the Northeast, if you take all milk products in total, we are still a net importer. The problem, as I mentioned in the paper, was we have maldistribution in terms of manufacturing, producing too much butter and powder and not enough cheese and certainly consumer-ready product cheese. So, we import large quantities of cheese.

Certainly there are reasons that one could surmise as to why this condition happened. I think that California at one time was strictly considered a fluid milk State. The best balance wheel you can have in a fluid milk State is if you use butter and powder. Sometimes you are long in cream. Sometimes you are long in skim. So, naturally, the butter and powder industry grew in California.

The policy decisions that were coming down from Sacramento seemed to indicate that we don't want to grow any faster than class I sales increase. So, people weren't going to construct cheese plants in light of the fact that down the road there may not be enough milk to supply those particular plants. So, down the road we went with butter and powder continuing to expand. What happened was that production in California grew much more rapidly than consumption did. As a result, we were able to increase our manufacturing facilities.

But we did not increase our manufacturing facilities for cheese nearly rapidly enough. So, we tend to be net exporters. What do you do with butter and powder? Naturally, you sell to the Government. But, again, my philosophy on who sells to the Government does not matter. What selling to the Government means is that you have got a pricing problem. You have price enhancement. Somebody is going to sell to the Government, it doesn't matter where it comes from. It is just a pricing problem. Once you get the price corrected, then everybody is going to sell commercial.

Now, on the matter of water, I think that certainly water costs are going to continue to escalate. Down the road I expect that water will become more and more expensive. I think that there are some natural conditions in California that have precipitated the environment which we have. Certainly there is a climate factor.

Mr. **JEFFORDS**. Doctor, I don't want to cut you off. I only get 5 minutes.

Mr. **GRUEBELE**. I am sorry.

Mr. **JEFFORDS**. I would like to ask another question which involves the southern part of the State. One of the things we ran into when we were adjusting the price support and trying to get things in balance was the fact that in the southern part of the State it seems that you do have some sort of a quota system. When we cut the price support, they increased their class I milk so that their farmers don't feel the price support.

Do you think, in view of the fact that the rest of the country can't do this, that that is a fair situation for California?

Mr. **GRUEBELE**. Well, my philosophy on that—and I have been very consistent with my philosophy. I do not think and I do not support any insulation of—if we are going to advocate a price solution for the rest of the country, I certainly support the concept that we take that price solution in California as well. So, that's where I come from, and that's the way I testify consistently in Sacramento.

I think that, when you take in total—again, I had some comments in the paper. The class I price in California today is predicated on a formula, an economic formula that is there, an economic formula that represents cost of production, that represents the class IV price and also has a factor in there for the consumer. And what happens in that particular case, the price went up by a percentage. In other words, when the class IV price went up because of the price support activity, the class I price did not go up dollar for dollar. Only 42 percent of the increase was reflected in the class I price. So, the class I price in California grew less rapidly than the rest of the country, when the price supports continued to be escalated every 6 months under the Carter administration, because of the 80 percent of parity concept. And it is also dropping by 42 percent. So, that policy is consistent.

It is a program that was worked on very diligently by a committee in California, and that was what was done. So, we went up by a lower percentage. But we are also coming down by a lower percentage. We are not going up dollar for dollar. We are not coming down dollar for dollar.

The only thing that was done in California—and I opposed it—was that the 50-cent assessment was included as a cost of production factor at the State level. That was included and was a factor and will be eliminated on April 1, when the assessment is eliminated. I opposed it. I agree with you that we should not and cannot in California insulate ourselves against price solution when we stand there and advocate it for somebody else.

Mr. Coelho. Thank you, Mr. Jeffords.

I want to just point out, just to make sure for the record here, that most of the commodities that go into the food supply here for the dairy herds are not really produced on federally funded or subsidized water projects. That line of questioning we could get into in detail. But whoever suggested that to you was off base.

Let us go in the order that people came in. Mr. Gunderson.

Mr. Gunderson. Thank you very much, Mr. Chairman, and thank you to all of you. I would enjoy, frankly, spending the rest of the day talking with each of you, as we could go on, I think, at some length.

None of you mentioned really what the market price for milk was in your area today. I think that would be of interest to this subcommittee if each of you could tell us what the price is in the market that your farmers are receiving for milk today.

Mr. Jacobson. In the State of Ohio, the two large Federal order markets, the February blend prices stood at about $13.50 per hundredweight. That includes the 50-cent assessment, which would be taken off of that. The net would be $13.

Mr. Gunderson. Dr. Harris.

Mr. Harris. I may be way off base. In South Carolina I think the class I price is currently today around $16. Our dairy commission was ruled unconstitutional by the State supreme court recently, so this is a supply-demand price that is not regulated by any agency today. It is a little bit hard to get a handle on.

I would guess that the blend price for our producers, since we have a fairly high class I utilization, is probably running somewhere around the $15, $14.80 range.

Mr. GUNDERSON. Dr. Cropp.

Mr. CROPP. In Wisconsin, our manufactured price is about $12.60, which I think is running around 70 cents higher than the State of California right now. The average milk price is right around the $13 mark, which is also higher than California right now.

We have had a very big increase that is now coming down, as I said. It has dropped 50-some cents since November as we are backing off of the anticipated 50-cent cut.

Mr. GUNDERSON. Dr. Gruebele.

Mr. GRUEBELE. The blend price in the south valley is about $12.40. The quota price—and we have a quote program in California—was $13.41. However, in the south valley we get about 27 cents less than that for quota, and the overbase price, which is equivalent to your M-W price, is $11.68. Prices are on the low side in California. They always have been, and they continue to be.

Mr. NOVAKOVIC. I must confess I don't have the number real handy. My recollection is that recently our blend prices in the New York-New Jersey area have been running in the neighborhood of about $13.20 or so.

Mr. GUNDERSON. Thank you.

One of the big concerns of the administration and others, as we try to determine a dairy policy, is that we ought to become more market oriented, that we ought to go to a free market, et cetera. My concern always is that, when we talk about the markets, those in Government only seem to talk about one element of that, which is the price. They don't talk about such issues as reconstituted milk. They don't talk about such things as the market orders, et cetera. It would seem to me that, unless we go all the way, we ought to reject the free market theory because our rhetoric is inaccurate.

What would be the impact on each of your regions if we would, in essence, go to a totally free market on dairy? By that I mean we would eliminate all market orders. We would allow reconstituted milk. We would make those types of transitions where, quote, the most efficient dairy farmer in the country in terms of cost of production, et cetera, would likely be the most successful. What would the outcome be in your region under such a proposal?

I don't care who starts.

Mr. JACOBSON. I think one thing that would happen would be that some of the kinds of security, predictability, assurances that milk producers are looking for would move to another institution. I am thinking basically of dairy cooperatives. They would become much more important in the picture. Right now they basically guarantee a price and guarantee a market for those members, those producers that sign in, and I think that more producers would feel that they needed that sort of an insurance in that picture.

So far as some other impacts are concerned, the reconstituted milk issue, for example, I guess you mentioned, it would be just about a wash. In Ohio there is no particular incentive to reconstitute, even in the absence of the sorts of penalties that come through the order program at the present time.

The freight costs on movements of fluid milk are such that virtually in any market you are going to be insulted from distant sources because of costs, except in those instances, as Dr. Harris mentioned the Southeast, where you are going to need to import milk.

We are basically self-sufficient. We run in the 55 to 60 percent class I utilization range. I think I can speak to the whole eastern Corn Belt with respect to that. While the producer interests would not like it and there would be a lot of instability as we move to new institutions, that sort of scenario would probably develop.

Mr. **Harris**. I would concur with, I think it was Dr. Cropp who said the immediate impact of this, given the surpluses that we have now, if we just cut out the rug right now, that we would see an immediate drop in the price of milk. That would be nationwide and would create a lot of problems for individual farmers. A great number would not survive. It would be a transition process. Like Dr. Jacobson said, it would create a condition of extreme uncertainty. I agree with him that farmers would attempt to turn to their existing institutions to attempt to reassert some security and stability in the market. They would use cooperatives as an avenue to do that.

However, in the Southeast I fear, given our farmers' fierce independence, like OPEC, sometimes these cooperative efforts tend to fly apart. So, this disturbs me a little bit.

Mr. **Gunderson**. Dr. Cropp.

Mr. **Cropp**. I really think along with Dr. Jacobson.

First of all, I would like to say that I don't think we should consider no Federal orders and no price support program. I think we need it. I think we need some changes in it. We could be market oriented. Even with half of these programs, it depends how we set that support price, the changes.

Co-ops would have to step in, of course, and do a greater role in this type of thing. But I do believe that, even though co-ops are larger today and offer more services, that they are not in a position to avoid some of the instability and chaos that could occur without these things. We would have greater instability. I think it would be damaging to the farmers as well as to the consumers.

I do believe that some things would come in place. For example, as far as inventory value of products, it would probably instigate maybe a cheese futures contracts and a butter futures contract. We used to have one in butter, for example, to reduce some of the price risk. So, there are some good parts in terms of market orientation and trying to do a better job of marketing possibly.

Reconstituted milk, it would not be reconstituted for food purposes in Wisconsin, again, because there would be no advantage. It would maybe enable some marketing in Wisconsin milk—well, there is, I guess, some consideration—I found in Dr. Harris' area here when you ran short, maybe there was some validity in moving reconstituted product down to beat those deficit times, for example. And I think you would see some expansion along that line.

But up in our area the biggest growth area in market potential is probably in the cheese area, where 73 percent of our milk is utilized for cheese. We got ultrafiltration and other technology that may work in the Wisconsin area as well. But up in the Upper Midwest, we feel there are some barriers in moving some of our milk out of the Federal orders. We need some changes in the Federal orders.

Mr. **Gunderson**. Could I have some quick comments from the other two before my time expires?

Mr. **Gruebele**. On the reconstituted issue, in California it would not be an economically feasible practice to reconstitute. It would be cheaper to do it with dairy products as we have them now.

On the matter of eliminating price support now, of course, it would have a dramatic impact. Naturally, the time to eliminate price support programs is not when you have an imbalance between supply and demand. If you ever eliminated it, you want to eliminate it when supply and demand are fairly well in balance, in which case I think, you know, we might be surprised how well it might work.

However, I do support the concept of having predictability in prices and so on. I think there is benefit to the consumer as well as the producer if we have some predictability. So, I would continue to support a concept of a market-oriented price support program. I think that is the way to go.

Import quotas were not mentioned. If you eliminate that too, we have got some real problems because there are subsidized products coming into this country. We cannot stand here in this country supporting the rest of the world. So, I think that is without saying. We need to continue to require an import quota program so long as the rest of the world does not go to a free market oriented program.

Mr. **Novakovic**. As I go from meeting to meeting, that has got to be the most popular question to ask. We all probably should have really good answers by now. I am not sure we do. I think it depends a lot on when you do it. If you do it today, it is big trouble. If you do it at a point where supply and demand are in much closer balance, maybe not so big trouble.

If you do it as a surprise, that's a problem; if it is staged in, perhaps less of a problem. I agree, we probably would try to move some of the things that the Federal Government does to different institutions. The strength of cooperatives in one region or another may in some way determine how successful a region adjusts.

I think some things are generalities regardless of region. I think it would be more costly to produce milk on the farm in a more uncertain environment. Uncertainty is cost. I think we would find a situation, if we had no price supports, where in fact we would have to have a higher price to get the same amount of supply at a particular price level.

I think you would find much more disparity in prices received by farmers. In other words, right now we have a system, Federal order system—and California system in this regard is similar—that says every farmer gets more or less the same price with adjustments for quality and transportation, and so on, but basically the same price within a marketing area. Without the Federal order system, you would find much, much more disparity in the price individual neighbors got for their milk.

I think I would also mention that the competitiveness of any region would depend probably just as much, perhaps some ways more so, on the competitiveness of the processors and cooperatives in the region as to the producers. I think in many ways processors are the ones that provide the outlets. I think if we have a competitive processing sector, that can be a benefit to producers.

I would mention to you that, if we got rid of imports, it would probably hit the Northeast harder than any other region. I am not familiar with last year's data, but in general I think about 80 percent of the imported dairy products come into eastern seaboard ports, mostly New York, some in Philadelphia.

That doesn't mean they all have to be consumed there. But I just have a feeling that, where they come in and transportation costs, and so on, would suggest to me that the Northeast would have a little bit harder time coping with that influx than perhaps some other areas.

Reconstituted milk, those sorts of issues, the Northeast is, quite frankly, quite pivotal. I can't really say that it is obvious one way or another. On the other hand, it makes sense to produce milk there. We could be an exporter of milk. We could be sending reconstitutable ingredients to the Southeast. On the other hand, the Midwest may try to send reconstitutable ingredients to us. So, I really couldn't say.

The other thing I guess I would mention is certainly if you did that, that type of an environment would put even more of a premium on management, especially marketing management. The producers that could live in that environment would be the ones that would survive.

Mr. Coelho. Thank you. Mr. Lewis.

Mr. Lewis. Thank you, Mr. Chairman.

I want to thank all five of you gentlemen for a tremendous input. You certainly did enlighten me on the differences between the various regions of the country.

Dr. Harris, your paper intrigues me a little bit where you talk about bringing the deficit under control and then go into the excess capacity, we have too many dairy cows, and that sort of thing. You pointed out in South Carolina, where you were dropping 5 percent annually, and then in the late 1970's this ceased.

I guess we all recognize that sooner or later the Government has to start sliding back out of this business to a certain extent. I would like to know generally what you think an overall plan should include for the daily industry that would provide this and still reduce the overproduction and provide a more free enterprise aspect.

Mr. Harris. That is a very good question, Congressman. In my own mind, I don't have any magic answers here. I think we have got a difficult problem in moving these excess resources, not only out of dairy but out of many other agricultural sectors.

I think perhaps, rather than looking at some of the avenues that have been addressed in terms of credit bailouts and so forth, which in many of the cases that we have worked with on an individual basis through Farmers Home, and so forth, that it appears to me that it may be dumping money down a hole, no matter what actions you take in the new farm bill. I would personally prefer to see an examination of some type of payments to encourage these people who are not going to make it in agriculture to reeducate themselves and take up a new line of work, it perhaps being less costly to the Federal budget and a more humane way of dealing with it.

I look at it more from the standpoint of a humanistic type of problem that we have with these people who are in agriculture and are just not going to be able to make it.

Mr. LEWIS. Thank you very much, Mr. Chairman.

Mr. COELHO. Thank you, Mr. Lewis.

Mr. Stangeland.

Mr. STANGELAND. Besides looking at some kind of a price support structure or market price program for milk, would any of you care to comment on what effects we might accomplish if we increase the Federal standard for quality milk and paid more on a quality basis, utilizing something similar to the California quality program? Do any of you care to comment on that?

Mr. GRUEBELE. I think that without question the program in California has operated pretty well. I think the key in California was that the producers and the processors worked together to develop a program. They jointly worked out a system whereby they increased the standards for 2 percent, the low-fat milk, and then also had a standard for whole milk. The program has been very successful. The consumers in California have had a low price for milk out of the store and have benefited from increased solids. We know that the solids portion of the milk, the solids-not-fat portion of the milk carries with it the nutrients in milk. This is the most critical element, calcium and so on are in the solids-not-fat side.

We think in California that that is a better beverage. It is a better tasting beverage. So, I think the consumer has benefited.

I think that we need to use a very logical, straightforward, economic approach in the rest of the country. First of all, the dairy industry, the National Milk Producers Federation being representative of most of the people in the dairy industry, needs to work with the milk industry foundation. I think that is No. 1. I think if they don't work with the milk industry foundation, it will never fly. You have got to take these people with them. They are the buyers of the product. You must recognize their problems. Unless you do that, you are never going to be able to sell the program.

I think that people are concerned about costs. My own feeling on that is that we have a mechanism whereby the consumers need to pay no more for that milk product out of the store if it is standardized to a higher level. I think that they will benefit from that. The dairy producers benefit because more of their solids are now being consumed in the fluid milk, which is a higher priced area. But I think that we could adjust the prices in such a manner—I am sure we can use the USDA and others—to formulate a program where the consumers do not necessarily have to pay more for their milk coming out of the store and yet have higher standards.

At the same time, more of the solids then would be utilized in the class I form. There would be less nonfat dry milk powder being purchased by the Government. And that is the side that is really presenting the difficulty; 75 percent of the nonfat dry milk powder has been purchased by the Government.

Mr. **Stangeland**. Thank you. I would like some comments from the other gentlemen, if they think that something like this might assist in milk sales. I am led to believe that fluid milk consumption per capita in California is higher than in any other part of the country. I am just looking at a way that maybe we ought to be looking at to help some milk sales. I just wonder if the other gentlemen would like to comment.

Mr. **Novakovic**. I think every one of us would agree that having a higher quality product, milk or any other product, is obviously a good thing. I think the question that needs to be asked in this context, is this something that the Federal Government should try to assure through some sort of regulatory action? Or should we work in the framework of our State programs that already have some involvement? Or is it something that the market should be expected to deliver?

I think that is a very reasonable question. I guess as a consumer of milk more than as an agricultural economist, I would like to think that the market should be able to provide that product if indeed it is superior and if indeed it is cost effective.

Mr. **Stangeland**. The point that I think we ought to make is that we have presently a Federal quality standard. So, the Federal Government is involved in it already.

Mr. **Novakovic**. That's right. And, of course, many States augment that standard. For example, the State of New York enforces higher standards than the Federal Government requires. There is a lot of flexibility at the State level to go higher.

I think the question is, do we provide some minimum level and let the market move above that? Should the Federal Government indeed provide a higher level? When the Federal Government creates a situation where producers and processors have to change their mode of operation, are required to transform the content of, say, 2 percent milk, then I think it is a legitimate question to ask whether or not that is an appropriate role or whether the marketplace should deliver that.

I don't think that we really have all the answers on what the benefits of having, say, higher solids milk would be. California does apparently have a fairly high level of food milk consumption. It is not the highest region in the country for milk consumption, however. There are other factors involved. For example, price, I would think, has to be a very important factor in California because prices there are relatively low for bottled milk.

That question, I think I would agree very much with Dr. Gruebele, is one that the industry would have to work with the milk processors on. I think realistically, from the standpoint of a company, there would have to be some real market testing involved of that product before we could really comfortably say this was a good idea for a company, much less for the Federal Government.

Mr. **Stangeland**. I have a couple of comments. The higher standards of California, yes, they have higher consumption of milk but I think, as was pointed out, there are I think about 10 other areas where the consumption is actually higher. When you separate out how come the consumption is higher, is it due to the higher solids, or is it due to the much higher level of promotion activity that is carried out in the State of California? And price is important.

Another thing as far as impact on the farmer goes, we have a lot of interests up in our area in this type of thing. About 75 percent of our milk in Wisconsin now receives some kind of quota pricing, either total solid product yield pricing or a protein premium. We are a cheese area. The additional solids increase the cheese yield.

When you look at it from a farmer's standpoint, you will find the composition of milk produced on farms, I think in California the fats and the solids-not-fat content is considerably lower than it is up in our area.

There is some concern that, if we go that route, farmers start breeding and selecting for higher protein calves, that is also an inverse relationship between production per cow. We are somewhat concerned on the efficiency in the long run, we don't overreact to that payment scheme and actually reduce the efficiency and the farm in terms of production. It is not just the percent test that we are after. We are also after the total pounds produced in a lactation. And there is a negative correlation. In fact, you select for protein or solids not fat, you lower the milk production the first generation about 600 pounds per cow. There is some concern about that.

Another thing is that, as far as we can do the consumption, I think there are a lot of unanswered questions there. Some of the promotion and calcium research comes through, maybe that will help that a little bit.

Up in our area, our milk is already selling for higher than minimum standards. It costs money to take it out, too. Our fat and solid content test is higher.

Mr. **Jacobson**. I would like to add one little thing. The current FDA standard of identity for whole milk, low fat and skim is 8.25 percent minimum solids not fat. Actually, whether it is California or Wisconsin or in 50 States, pretty much the average solids-not-fat test for producer milk is very close to the 8.6 percent level. This means that on whole milk the 8.25 percent is really sort of an academic minimum. On skim milk, for example, once you take the fat out, it essentially moves the solids-not-fat test of the remaining skim milk on the average up to about 8.9 percent.

I don't have strong feelings one way or the other on whether the standard of identity should be changed. But I think that the standard of identity as announced at 8.25 percent does not describe the kind of fluid milk beverage that the consuming public in this country is getting.

Mr. **Harris**. I would just make one brief comment, and I thought Dr. Novakovic would mention it. There was a detailed study done at Cornell recently, which basically indicated that the results are very inconclusive as to what the cost and benefits nationally of going to higher standards of identity would be. It just needs further study.

Mr. **Coelho**. I would be happy to come back after everybody goes through.

Mr. Hopkins.

Mr. **Hopkins**. Thank you very much, Mr. Chairman.

You are an economist. I have been amazed at your rather lengthy answers. I think you might have developed or perfected the art of never having to breathe in.

Let me, if I may, in the interest of time, try to get right at some questions that I would like to have answered, and start with Dr. Harris, with just a simple yes or no.

Are you aware of recent shortages of fluid milk in the Southeast, coming from the Southeast, since you are from the Southeast?

Mr. HARRIS. Yes, sir; I referred to them in my testimony.

Mr. HOPKINS. How has the present program, that is the assessment and diversion payments, affected milk production in the dairy industry in your area?

Mr. HARRIS. Reduced production in the area.

Mr. HOPKINS. I'm sorry?

Mr. HARRIS. It reduced production in the area. We had a higher signup in Nashville, as one would expect.

Mr. HOPKINS. How is it possible to have fluid milk shortages in some regions of the country while there is surplus production in other areas?

Mr. HARRIS. As long as the milk can flow, it's no problem. The problem was that it wasn't as easy and it was costly to get that milk to flow from where it was to where it was needed.

Mr. HOPKINS. Is the production response to price changes the same in all regions?

Mr. HARRIS. I would seriously doubt it.

Mr. HOPKINS. What if you have a greater demand for fluid milk in an area than the producers can supply? In your opinion, should the price of that fluid milk still be determined solely on the basis of the national supply of milk?

Mr. HARRIS. No; I think local conditions and the economics of the cost transporting milk are the key factors in what the price in any area should be.

Mr. HOPKINS. Do the present Federal order class I differentials and location differentials adequately reflect the cost of transfer from surplus to deficit regions?

Mr. HARRIS. They do not adequately reflect it from the major producing region of the Upper Midwest.

Mr. HOPKINS. How would you suggest that the Federal program be improved to take care of regional and local differences in order that consumers may be assured of an adequate fluid milk supply?

Mr. HARRIS. I don't think it's my job as a university economist to make prescriptions for what the Federal order system should do. I suggested in my testimony that this problem does indeed need immediate attention and study and that perhaps a public hearing be held, a national hearing on this issue.

Mr. HOPKINS. Do you consider import quotas an important part of any support program?

Mr. HARRIS. Anytime that you have a price that is above the world market clearing level, then import quotas become an important dimension of this, keeping in mind the fact that we are not dealing with a free market in the rest of the world either.

Mr. HOPKINS. Do I have some time left, Mr. Chairman? Is my time up?

Mr. COELHO. No, you have more time. You have moved right along.

Mr. HOPKINS. Dr. Gruebele, you mentioned in your testimony that the diversion program is a short-term program for a long-term problem. Would you equate that to putting a Band-Aid on a terminal disease?

Mr. GRUEBELE. Pretty much.

Mr. HOPKINS. Do you think that the current program is helping at all?

Mr. GRUEBELE. I think it certainly had some short-term impact. But again now we are coming off the program, now what?

Mr. HOPKINS. Thank you very much. Thank you, Mr. Chairman.

Mr. COELHO. That set a record, Mr. Hopkins.

Mr. Olin, let's see how well you do.

Mr. OLIN. Thank you very much, Mr. Chairman. I really appreciate that high standard as set by my neighbor, Mr. Hopkins.

I would like to sort of follow along some of the line of his questioning. I come from Virginia. We have been the happy recipients of the program over the last couple of years, also. We are awfully tired of paying the assessment and the overshot on the diversion. We are a deficit area to begin with. Our imported milk rose 265 percent over the last 3 months of 1984. It is hardly something that we could feel very good about. We are very sensitive to areas where the surpluses have been created.

I apologize for emphasizing the differences in regions. I am anxious to have a common policy on this commodity as much as anybody else except that we have got to have policies that will be fair to the regions at the same time that they solve the national problem.

I would like to ask Mr. Gruebele and Mr. Cropp if they could comment on—I guess I will ask you three questions, and you can each try to answer them. Be brief, but not so brief that you don't answer them.

One, what is approximately the percentage sale to the Federal Government, the CCC, of dairy products in your areas, each of you? And what support price level would it take getting down to before you feel that those surplus sales would dry up to nothing, be out of the picture? And about how many years do you think we ought to take getting there?

Mr. Cropp, maybe you could try that first.

Mr. CROPP. Percent of sales to CCC are naturally high up in our area because we are a manufacturing area, where 80 percent of our milk goes to manufactured products, 73 percent in cheese. We produce about 36 percent of the cheese supply of the country. So naturally, when the Government buys cheese, butter, and powder, it is going to come from an area of our type.

As I recall—I don't have last year's figures, because I will disagree with Dr. Harris a little bit. During the summer, when supplies were tight, the sales of products from Wisconsin and Minnesota area were almost nil or nonexistent. There was a little bit of powder, few cheese sales, no butter sales.

Dr. Gruebele can comment on it. I think the larger share was coming out of California in terms of Government purchases during that time period.

As I recall, in 1983, I think around 12 percent of our cheese production were sales to the Government, from the Wisconsin area. I can't remember what the butter was, around 12 percent, of our production that was, of our production.

Mr. OLIN. You don't have an overall approximate number of——

Mr. CROPP. Of pounds of milk?

Mr. OLIN. Of all dairy products; yes.

Mr. CROPP. Well, that would be probably overall, would run somewhere around that time, around the 12 or 15 percent.

Mr. OLIN. What about the price levels?

Mr. CROPP. On milk equivalent basis.

On your second question, how low would the price have to go, I guess we're probably talking, if you want to, again, with no Government purchases——

Mr. OLIN. Yes.

Mr. CROPP. Immediately you're probably talking close to that $3 drop.

I think, Andy, in your model in that would probably generate about that kind of a drop.

Mr. OLIN. You're saying $9.60?

Mr. CROPP. Yes.

And how long it would take to get there, I guess, depends on what kind of a policy we have. But I think it is unrealistic to assume that we can probably get there and clear the thing out within 2 years, without causing some real adversity.

That's why I said, I think it's questionable to drop that support price any further due to the finance problems we have now, even though dairy is not nearly as bad off as other commodities are. But you take it, you know, drop it another 50 cents or 75 cents, you're going to create that. So, I think we need, my testimony is, an orderly adjustment process——

Mr. OLIN. You're saying more than 2 years.

Mr. Gruebele, could you answer those three questions?

Mr. GRUEBELE. OK. I don't have the specific number for the Federal Government purchase of dairy product. I know that we as an association, I suspect in the State of California that most of the powder that is manufactured in California, which is about 269 million pounds, most of that is probably purchased by the Federal Government., That is because of the tremendous surplus problem we have in powder and the lack of commercial——

Mr. OLIN. How much of that powder, what percentage of the milk production is converted to powder?

Mr. GRUEBELE. I don't have that specific number. I would have to guess, and I don't want to guess. I don't have that number. I do know how much powder is manufactured. It would take a calculation. I am not ready to do that right now.

Mr. OLIN. I guess we can look it up.

Mr. GRUEBELE. In terms of the butter, I would say that in our case most of our butter is sold commercially. In the case of cheese, of the 36 million pounds of cheese, I would say in the neighborhood of 30 million pounds is sold to the Government.

It is an interesting problem with cheese, you understand. We can sell cheese commercially if we are willing to take a price cut. That is the situation. We have cheese that qualifies for Government sale. And the best quality cheese goes to the Government, unfortunately.

Mr. OLIN. I don't want to run out of my time before you finish. Could you try the price question?

Mr. **Gruebele**. Let me just say that it is irrelevant, naturally, to say again who sells to the Government, it's a price problem.

What support price level? If you're talking about powder, you are going to have to drop powder. If you're going to clear the market today, less than 50 cents a pound.

Mr. **Olin**. Only 50 cents would clear——

Mr. **Gruebele**. From 91, OK, 91 cents a pound to about 50 cents. In butter, you're 1.43 and a quarter. I would have to guess. But you would have to drop it substantially. And cheese, again, you would have to drop it not as much, but you would have to drop the price of cheese also to clear the market.

Mr. **Olin**. How many years——

Mr. **Gruebele**. How many years, I would say 1 to 3 years, a minimum of certainly 1. I would say that it took us a while to get out of this problem. I think we ought to take some time to let the problem solve itself.

Mr. **Olin**. Those of us in the Southeast are going to be very interested in sort of pushing that program along.

Thank you very much, gentlemen.

Mr. **Coelho**. Thank you, Mr. Olin.

Mr. Volkmer.

Mr. **Volkmer**. As we all know, we've got a 50-cent adjustment coming up in April 1. It looks also like we are going to have a 50-cent adjustment coming up July 1.

I would like to ask all of you, and I will start with Dr. Jacobson, how do you see that affecting our dairy producers? The diversion program is going out, also. How many young fresh cows do we have out there that we are going to see coming in, say, by the first of the year? Or am I wrong?

Mr. **Jacobson**. No, I think you are right. The April 1 price support adjustment, at least in terms of revenue to dairy farmers, will not have any meaning because the 50-cent assessment also ends this month. So, we are really only looking at a revenue adjustment of 50 cents. We are looking at a price adjustment of $1 but a revenue adjustment of 50 cents.

That is not going to be a morale-building factor out in the dairy sector. Given the fact that at least in our part of the country the feed costs are low and we don't expect any increase in feed costs this year, and that is the No. 1 cost, and I think probably we are in a higher equity position in the milk producer sector than in some other sectors in that part of the country.

Sure, there's going to be some stress, but it is not going to be catastrophic in any sense of the word.

I agree, when I listened to Dr. Cropp's 137.6 billion pound estimate for 1985. I have been using almost exactly that same number in meetings that I have been having. That represents a 1.5- to 2-percent increase in production this year.

The replacement animals are there. The artificial insemination cooperatives and companies tell me their sales have been better than ever this winter and last fall. We are going to see a lot more milk.

Mr. **Volkmer**. Because your blended price isn't going to reduce that much.

Mr. JACOBSON. Our blend price is going to drop penny for penny with the M-W, and the M-W is going to drop penny for penny with the support price. We are looking at a major price drop in this next 3 to 6 months.

Mr. VOLKMER. What do you mean by major price drop in your OMW?

Mr. JACOBSON. Well, I think I mentioned earlier that we were looking at $13.50 blend prices in the Ohio markets at the present time. We will be looking at $12.30 blend prices this summer.

Mr. VOLKMER. So, by fall, if you want to make up the differences, you've got the ability, in other words, you got the structure and you got the milking equipment and everything else, you're going to bring them in?

Mr. JACOBSON. I think we have seen a history of shortrun supply responses to price drops, positive supply responses to price decreases.

Mr. VOLKMER. I probably won't make all this in 5 minutes, I'll have to wait. But I want to ask you one other question while we have you.

What is your average cow herd in Ohio?

Mr. JACOBSON. Production per cow?

Mr. VOLKMER. No, average numbers.

Mr. JACOBSON. In our DHIA herds, we are looking at about 60 cows. And those are the better dairy farms. Probably as a State average, we're looking more at 40 cows.

Mr. VOLKMER. Thank you very much. Dr. Harris.

Mr. HARRIS. I think that producers in the region have pretty well factored the two 50-cent adjustments, the first, of course, which will not affect their revenue, as was stated, into the plans. And they plan on making their production adjustments in view of a July 1 price cut.

Mr. VOLKMER. Are you talking about increased production?

Mr. HARRIS. I am talking about increases in production, sir, particularly from the participants in the program. There have been some studies done in neighboring States. North Carolina, for example, recently surveyed the participants in the program. A large percentage of them stated that they were going to add a significant number of replacement animals. I think perhaps the most significant statistic in their survey indicated that 9 out of each 10 of those animals that they planned on increasing were already there on the farm.

One-half of the participants had had to cut feeding rates in order to meet the targeted diversion payments. All of them were planning on returning, given cheap feed prices, to a normal ration. So, production for cows should increase.

So, we expect production in the Southeast to increase this year. Since we had a higher signup rate, it will take us a little bit longer to get back to where we were than most of the other producing regions.

But we visualize that we could have severe price problems this fall if we do get a significant increase in the supply of milk both nationally and in our region.

Mr. VOLKMER. What is your average dairy herd?

Mr. **Harris**. It varies from some 60 or 70 cows in the Upper South, Kentucky, and Tennessee, down to average size herds in Alabama, Georgia, and South Carolina of, say, 140 cows or so. Of course, in Florida we have large commercial operations, somewhat comparable to the California type.

Mr. **Volkmer**. Dr. Cropp.

Mr. **Cropp**. As I said, in our area, of Wisconsin, if production is going to go up a good 2 percent, look at the heifer numbers, but we got about 44 heifers or 45 heifers per hundred of cows, which is high. We do export a lot of those heifers. In fact, look at Texas numbers. I think their heifer numbers are up 44 percent. We have had some heifers going out to those areas. Other areas are gearing up and even going to California. They have quite an export market for heifers. So, they will not all return to Wisconsin herds.

Our count numbers are down a little bit. I think with those heifers we are going to maintain the herd size. I am more concerned about that production per cow, as I indicated, down in the State of Wisconsin as well as the national average.

Now, that is not affected as much by feed prices as it is in the South or Southeast. Basically we raise the bulk of our feed. We feed less grain and concentrate than other areas do. Our feed costs are holding down there.

The day of farmers borrowing more money to expand—you still hear farmers saying that, but those days have ended. No new dollars are going in for expansion. If you got the heifers, fine, but you're not expanding. So, I think it has come basically from increased production from the number of cows we have.

The price, as I said, we probably have an estimate less than 10 percent. I would say more like 5 or 6 percent of our dairy farmers are in severe financial problems now. The extra 50 cents will occur in July. The price of milk will not fall 50 cents at that time in our area because that is a low production, high demand period of building inventory for Thanksgiving and Christmas. So, the greatest impact of the 50 cents would carry on if that price stayed in the next year. But it would surely increase in cash flow problems. It may put another 10 percent of the farmers in some serious situations. So, it would deteriorate along that line.

So, 80 percent of our milk is manufactured product. So, our price would drop by that amount.

Our average herd is 43 cows.

Mr. **Gruebele**. OK. Milk production in California should increase in the neighborhood of 6.5 to 7 percent. As far as the paid diversion people, there are those who want to expand back to the levels that they were before. But you've got to remember that some of the people are in trouble. When those cash payments from the Government stop coming, the banks are going to be very interested in that. Some of those fellows are going to find themselves surprised when they try to use some funds; the bankers are going to refuse to give it to them.

I took a survey also. Our dairymen in the program said they were coming back. But some of those dairymen are not going to make it. They are going to be out of business. Of course, I think that the adjustment needs to come. I think that we need to adjust some resources out.

Some of those resources will be adjusted out in California as well. There is no question about it.

Our average herd size in the south valley is 375 cows; in southern California, 750 to 800; in northern California, 250 to 300.

Mr. NOVAKOVIC. The Northeast in general had the smallest signup under the diversion program. Consequently, they are going to have, I think, the smallest rebound. I would guess in New York we probably would come back about 2 percent.

Average size farm in New York is about 60 cows. If you include the whole Northeast, the average would be slightly smaller.

In terms of the price cut, obviously that is going to take a bite. I think we have to maintain a little perspective on that. To the extent that, on the one hand I can probably show you Cornell University studies that say, if you factor in a return to family labor and a return to equity capital, that dairy farmers in New York haven't made a dime for the last 30 years.

On the other hand, I think if you look at the larger picture, it seems pretty clear to me that, unless you want to wait about 3 years, an $11.60 support price will not get us down to a reasonable level of supply and demand, unless we have a very, very successful promotion program or unless we get much higher feed prices.

Mr. VOLKMER. If I have time, I would like to ask Dr. Cropp one more question.

We know that 80 percent of your production is from manufactured milk. That means 20 percent is class I or fluid milk, approximately. Is that still excess for Wisconsin?

Mr. CROPP. Is that an excess, you said?

Mr. VOLKMER. Yes; is that still excess for Wisconsin?

Mr. CROPP. No; in fact we serve primarily the Chicago market. The fluid market is predominantly served by Wisconsin farmers, also the Minneapolis market, where the bulk of that is going.

We did have some out-of-State shipments farther this year. So, the excess——

Mr. VOLKMER. Doesn't some of that fluid milk move to other places like in northern Illinois——

Mr. CROPP. Sure.

Mr. VOLKMER. Or Minnesota and Iowa?

Mr. CROPP. The predominant fluid would be Chicago. That is the largest order. That bulk milk comes from Wisconsin farmers.

Mr. GRUEBELE. Don't forget to sell a little cheese to California.

Mr. CROPP. Right.

Mr. COELHO. Thank you, Mr. Volkmer.

Mr. Smith.

Mr. SMITH. Thank you very much, Mr. Chairman.

I would like a yes or no answer to this question. That might be unfair, but let's try it.

Would you favor a 4-year program ratcheting down the target prices to $9.60? Yes or no. Dr. Jacobson?

Mr. JACOBSON. No.

Mr. SMITH. Dr. Harris.

Mr. HARRIS. No.

Mr. CROPP. No.

Mr. GRUEBELE. No.

Mr. NOVAKOVIC. No.

Mr. Smith. Thank you.

The thread of agreement, it seems to me, that I have listened to is one of predictability and one of identifying objectives. The third is that you can't drop the Federal program tomorrow morning without disaster. I think I have heard all three of those expressed by you.

Obviously, I think you are concerned, as we all are, about the current surplus situation, and how we can recover a viable dairy program, while recognizing that we have too many dairy farmers and too many cows. Obviously, you don't agree that we ought to ratchet down to what I thought I heard one gentleman say was $9.60, which, in time, would clear out the surplus.

So, my next question is going to take a paragraph, if you don't mind. What do you favor to arrive at those solutions?

Mr. Jacobson. I would stay with a market oriented objective. I think that—and a CCC purchase program. I think that probably, if we lock in at $11.60 this fall and do that again in 1986, we will have then a 2-year performance to measure what is happening at the start, on October 1, 1987, when we would have to look at it again.

If we continue to have an excess of supply over demand in any price-depressing terms, then I think the question as to whether to go lower to $11.10 or $10.60 or whatever, would be pertinent. But I think it is possible to postpone the harshness of that price drop for a couple of years.

Mr. Harris. I tend to agree that holding the level—as I said in my testimony, I think that perhaps the type of price mover that might work best, could cope with the problem, would be a cost mover with a supply demand adjustment. Now, of course, that begs the key issue of where you start the price to moving from. And I would suggest that $11.60 might be a good place to start this fall. It is still going to be painful but the resources are going to move out in a more gradual basis.

Again, I would hope that some attention is paid to some of the pain and human suffering that this is going to cause, not only for farmers but for some of our agricultural industries.

Mr. Cropp. I guess I fall in about the same camp.

One thing that I would throw out. It depends an awful lot on what the other commodity programs are going to be. I mean, cheap grain, for example, is a major there. If we are going to go with a cheap grain policy, well then we are going to have problems in there. That is a major factor. So, we have got to keep looking at all commodities in balance.

I would like a $12.10. I think we have an increased support price since October 1980. Things have built up because we raised the thing when we shouldn't have. I go, as Dr. Harris said, I think there is no formula we could come up as the proper mover. I think we need some kind of supply demand adjuster. We may need that very much so, or some efficiency measure in that thing, or some dairy parity formula that is being developed that does recognize some of that in there, because there's technology coming on. So, moving that price up is a key issue. Don't move it up too fast.

But, as I was saying, it's going to take a few years to get out of there, but I would like to hold that thing, other than just ratcheting it down real quickly here.

What we do with other commodities is also extremely important: what happens to feed prices, and this type of thing, and cow prices. I do see the livestock——

Mr. **Coelho**. Dr. Cropp, can you cut your answer to that paragraph that Mr. Smith talked about? But make it a short paragraph. Time has expired, but let's get the answers.

Mr. **Gruebele**. OK. We have got to remember that feed costs have gone down. I would say the cost of production in California dropped by more than 50 cents, which we are going to encounter in July. And I think we need to recognize that.

I don't agree with Dr. Cropp that we need a $12.10 price. I think we definitely, without question have to go down to $11.60 this fall. If we are ever going to solve this problem, $12.10 will never do it, in my opinion. Eleven sixty, and we're saying let's pay for the program, and that means an assessment, for Government costs above 4 billion pounds, if it's 7 billion pounds projected, that's another 45-cent assessment, coming off the $11.60, down to a lower number, I think we're going to get the adjustment if we go this direction.

Mr. **Novakovic**. I interpret from your question that the kind of program you are talking about, the one that you would like us to make a comment on what we ought to have, assumes that we want to have a program that seeks some sort of reasonable supply-demand balance within a period of, say, a few years, 2 or 3 years, that we want to have a program that doesn't try to create any differences by regions, at least for the price support program. Let the Federal order program serve regional needs but not try to have a regionalization of the price support program.

And I also interpret that to mean that we don't want to have any particular special compensation, any differences for the small farmer or the inefficient farmer, or the young farmer, or any other type of subgroup.

If that is the objective, then I guess I would concur with Dr. Jacobson's program. Stick with the type of program we have had, and let prices adjust accordingly.

And I also would agree with Dr. Gruebele that I think for the next year the price that we are likely to have on July 1 is probably appropriate. I think in 1986 we should take a careful look and consider whether or not a further adjustment is needed. We may want to go slightly lower, but I don't think we need to go anywhere near that.

A comment about $9.60, I think Dr. Cropp's comment about the $9.60 level was, what would it take if you wanted to do it this year——

Mr. **Smith**. I understand. My question was over 4 years.

Thank you very much, Mr. Chairman. It occurs to me that, lo and behold, we are freezing milk prices. This is the freeze of the milk price program today. Thank you.

Mr. **Coelho**. An interesting discussion.

Mr. Stenholm.

Mr. **Stenholm**. What percent of the total milk being produced in the United States today is being—or would be—profitably produced at $11? Each of you, off the top of your head, your best judgment for your area interposed into the total United States.

Mr. Novakovic. Of course, you first have to give me a little bit of idea what profitable is. But if you are saying, could farmers make money at that price, I think the vast, vast majority could. Now, again, don't forget that doesn't mean $11.10 or 60 cents is the price everybody receives in every State. Of course, there are other factors. But I think that support price would still keep most farmers profitable until you start changing feed prices or some other factor.

Mr. Gruebele. I agree with that. I think that we are going to have an increase in production in 1985 in spite of the fact that the prices have dropped to $11.60.

I heard Dr. Jacobson a long time ago say at any price level some producers are going to make money, some are going to go broke. And that is a fact.

Mr. Cropp. About the same thing. There is such a variation of production costs. It ranges anywhere from $11 up to probably $14. It depends on management ability. We got probably the greatest variation of manageability of any area of the country. One reason for that, we also have the lowest cash expense, simply because we raise a lot of our feed. And we work for family members, do the labor, if not hired labor. And, so, it takes you longer to squeeze us out.

Mr. Harris. If we continue to have—if we had an $11.60 support price and we continue to have the same type of regional differences in the South that we have had historically, I would think that a majority of our producers would certainly be able to make some money and be able to hang in there. It is a very mixed bag.

As I said, no matter what we do, we are going to lose a lot of our highly leveraged producers unless interest rates come down or land values go back up, which we see little prospect for in the near future.

Mr. Jacobson. I would agree that the majority of them could realize revenue over their cash expenses in milk production at $11.60.

I also want to say one other thing. I don't think we are talking about freezing milk prices. We are talking about freezing support prices. If we really believe in that marketplace, it is the milk prices and not the support prices that are fundamental.

Mr. Stenholm. If what you just answered to that question is correct, we are going to continue to have surpluses of dairy products. Therefore, whether you are for or against supply management doesn't matter; you are going to have it. My question is, having the supply management program, what is our best approach ?

Mr. Gruebele. Price

Mr. Stenholm. Quickly, I would like to have you give me a little more in-depth answer for the record. What is your best recommendation for this subcommittee to consider for a supply management mechanism if we choose to go that way?

Mr. Gruebele. In my testimony I think it is spelled out. I would indicate again that the price of $11.60, the producers pay for the program above 4 billion pounds, and if the projected surplus is still very large in 1986, starting in October 1986, I would favor a temporary program of paid diversion. No mandatory program of any sort will we ever support.

Mr. STENHOLM. Does anyone have another suggestion?

Mr. JACOBSON. I would say that, if you want to balance supply and demand and enhance milk prices, the answer is supply management with mandatory bases, with substantial penalties for overbase production, with efforts made to, in the same sense that the diversion program holds the bases ultimately in the hands of the Government, to do that also in this instance.

Mr. HARRIS. I would suggest that any reputable economist would say that the market mechanism is the best allocator of resources and the best way to manage supply over the long run. As far as the supply management program goes, it is only if we suggest that the goal of the program should be to enhance producer incomes, if we wish to do that, we can do it very easily. And it won't cost the Government a thing, through a system of quotas. It would retard production adjustments. It would add a cost on both consumers and on the next generation of dairy farmers if we did that. But if you wanted to do it, we could certainly do it. It depends on what the program goals are.

Mr. COELHO. Are there any more questions?

Mr. STENHOLM. Any of you who mentioned the paid diversion, I would personally like to have suggestions from you as to how that could be structured to gain the support of the entire livestock industry. If we are to go that way, how can we best avoid the opposition we ran into last time. I would appreciate having that suggestion from any of you.

Mr. COELHO. Mandatory or voluntary paid diversion?

Mr. STENHOLM. Both.

Mr. COELHO. OK.

Mr. Jeffords.

Mr. JEFFORDS. First a comment, for those of us that worked hard on designing the diversion program, I have always tried to resist I told you so, but as far as the Southeast is concerned, many of us recognize that they probably have shortages there. We had a little provision in the original diversion program which said that the Secretary would have authority to adjust contracts in any area where he felt that a severe shortage would exist. And it was the Southeast that came charging forward and said, don't do that, take that provision out, we don't want it, we don't want it. And we took it out.

I couldn't resist the opportunity at this time to say I told you so.

Mr. HARRIS. May I respond?

Mr. COELHO. Yes, you may.

Mr. HARRIS. And I think quite rationally Southern dairy farmers wanted to keep it without the Secretary having discretionary authority over regions because the individual farmers who participated in the diversion program have benefited from the program. So, when I said it hurt the South, it goes without saying that we had thousands of farmers down there. I talked to several who said last year was the best year I ever had dairy farming.

But Hawaii and Alaska were exempted from the diversion program. You know, to a lesser degree the same type of rationale existed for the South. And I don't know how you would have done it any differently.

Mr. JEFFORDS. I understand.

I have some questions. I think I just prefer to have them answered later rather than to answer them now. I don't want to take any further time.

The first question is, do you feel that we should tilt the April-July price cuts and place 100 percent of the cuts on powder? I would like you to maybe give your comments. I have got some others, though.

Mr. **Coelho**. Why don't we do this, Mr. Jeffords. Why don't we submit a list of questions that we would like each of you to answer. We will have our staffs collect the questions from each of the members. We will submit them to each of you. If you would cooperate and answer them and submit them, we will make sure each member of the subcommittee gets them. And that way we can benefit from additional thoughts that we have had as a result of your comments.

Mr. **Jeffords**. That is perfectly satisfactory with me if it is satisfactory to the panel.

Mr. **Coelho**. Any more questions?

I want to thank all of you again for coming. We found out some of the regional differences. But, I think, more importantly we found out that most of you agree on a lot more than you disagree. That is very encouraging to me.

I want to remind everybody that next Wednesday the Secretary has decided that they have found our letter, and they will be here. So, USDA will be here next Wednesday. We will have the organizations. That will complete the first part of our dairy hearings, which is the fact finding. Then we will go into some field hearings. Then we will start working on legislation. Thank you very much.

The meeting is adjourned.

[Whereupon, at 12:45 p.m., the subcommittee was adjourned, subject to the call of the chair.]

[Material submitted for inclusion in the record follows:]

UPPER MIDWEST DAIRY SITUATION AND DAIRY POLICY CONCERNS

Testimony at Hearing of House Subcommittee
on Livestock, Dairy, and Poultry
March 20, 1985

By
Robert Cropp
Professor & Agricultural Marketing Specialist
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Platteville, Wisconsin

Introduction

Mr. Chairman, I appreciate the opportunity to participate in this hearing on dairy policy issues. Dairy farming is extremely important to both the agricultural and general economy of the Upper Midwest. Milk sales is the main source of cash farm income for Wisconsin and Michigan, and is a close third to meat animals and grain sales in Minnesota and South Dakota. Milk sales as a percentage of total cash farm income for these states is: Wisconsin 57%, Michigan 24%, Minnesota 20%, and South Dakota 9%.

Wisconsin is the leading dairy state producing 23.5 billion pounds of milk or 17.4% of the nation's supply. Minnesota accounts for 7.6% of the nation's milk production, Michigan 3.9%, and South Dakota 1.2%. In total these four Uppermidwestern states produce over 30% of the nation's milk supply.

The Upper Midwest has maintained its position in the dairy industry over the past ten years (1974-1984). While the nation's milk production increased 17.2% during this ten year period, production in these four states increased 20%, but mainly due to increases of 26% for Wisconsin and 23% for Michigan and only a 10% and 3% increase respectively for Minnesota and South Dakota. In summary, 34% of the increase in the nation's milk production for the ten year period of 1974-1984 occurred in the Upper Midwest.

Impact of Dairy Diversion Program

Without question the 15 month Dairy Diversion Program was successful in reducing the milk surplus problem which has existed since 1979. About 12.5% of the nation's farmers participated. Milk production was reduced from the record 139.7 billion pounds produced in 1983 down to 135.4 billion pounds in 1984, a 3.1% decrease. This reduction was accomplished by slaughtering 3.2 million milk cows during 1984 resulting in a net reduction of the nation's dairy herd by 225,000 milk cows. The record supply of over 4.7 million dairy replacement heifers prevented a greater reduction in the dairy herd. Lower milk production per cow also was responsible for lower milk production. Milk production per cow declined .7% in 1984 due to a less favorable milk-feed price ratio, 1.39 for 1984 versus 1.45 and 1.53 for 1983 and 1982 respectively, reduced grain and concentrate feeding by participants in the Dairy Diversion Program, and financial stress lessening grain and concentrate feeding. The last time production per cow decreased was 1974 when grain and concentrate prices reached record levels. This aspect of reduced production bothers me a great deal. Reduced grain and concentrate feeding resulting in less milk per cow normally is not a profitable management decision. Another management practice that bothered me was the keeping of more milk on the farm as a means of reducing milk marketings rather than selling milk cows and reducing the herd size. About 4.3 billion pounds of milk was kept on the farm in 1984 compared to the usual 2.3 billion pounds. Thus, some bad management practices resulted under the Dairy Diversion Program.

Commercial milk sales increased by 3 billion pounds or 2.4% due to favorable retail milk prices, improved disposable income, increased dairy advertising and promotion, and very importantly the stability of the support price for 16 months, December 1983-March 31, 1985. The stability of the support price lessened the price risk of inventories carried by manufacturing milk plants. The less risk encouraged plants and the entire marketing channel to carry larger inventories of cheese and butter resulting in improved sales. The anticipation of a 50 cents per hundredweight cut in the support price on April 1, 1985 and again on July 1, 1985 has once again increased the risk of drop in inventory values to plants and will have a negative impact on sales. I wish to comment further on this later.

The end result of reduced farm marketings of milk and increased commercial sales was a reduction in CCC purchases by about half, 16.8 billion pounds of milk equivalent for 1983 down to 8.6 billion pounds in 1984. CCC costs under the dairy price support program were also reduced from $2.6 billion to $1.6 billion, a $1 billion savings. The $10 per hundredweight paid diversion was more than adequately funded by dairy farmers themselves through the 50 cents per hundredweight assessment. In fact, for the first three quarters $536.7 million was paid out to participants in the program while $711 million had been paid in through the assessments.

Producer participation in the Diversion Program was higher in the Upper Midwest than 12.5% for the entire U.S. The percent of the producers participating in each of the states was Wisconsin and Michigan 14.2%, Minnesota 21.7%, and South Dakota 18.7%. Net reductions in milk production was Wisconsin 1.3%, Michigan 3.2%, Minnesota 5.3%, South Dakota 7.5%, and 2.8% for the entire Upper Midwest. The Upper Midwest accounted for 28% of the total reduction in 1984.

The Diversion Program did disrupt some fluid milk markets particularly in the South and Southeast where milk production fell as much as 10% in Florida, 8% in Georgia, and 5% in South Carolina. As a result, fluid milk shortages did occur in these areas in late summer and early fall. In order to meet these shortages supplies of Grade A milk from outside the area had to be shipped in, much of which came from Wisconsin. Wisconsin out-of-state spot shipments totaled 2,301 loads (112.7 million pounds of milk) in 1984 compared to only 420 loads (20.5 million pounds of milk) for the previous year. During this time of the year Wisconsin manufacturing milk plants needed this milk for their own use to build inventories for the peak demand for cheese and butter during Thanksgiving and Christmas. Therefore, Wisconsin plants were willing to give up this milk only at premiums or a plant give up charge above the market price. This fluid shortage and resulting plant give up charges was disturbing to Southern dairy cooperatives and has positioned them against a continuation of a paid diversion or other supply management programs that result in a disruption of their fluid milk supplies.

Dairy Situation After Expiration of Dairy Diversion Program

A major fault of the Dairy Diversion Program was its 15 month duration. The program would have been more effective if it had been for 24 months. As previously indicated, this short duration enabled dairy farmers to hold back breeding of dairy heifers, reduce feeding of milk cows, feed milk to other livestock, and etc. These practices would not have been as feasible if the program had been longer. As a result, the program expires on March 31, 1985 leaving the dairy industry with an excess number of milk cows, 5% more dairy replacement heifers than a year ago and thus the potential for increased milk production and milk surpluses in 1985/86. My 1985 estimated milk supply-demand situation is as follows:

	(Billion Pounds)	% Change
Production	137.6	+ 1.6
Farm Use	2.5	
Farm Marketings	135.1	+ 3.1
Beg. Stocks	5.0	
Imports	2.7	
Total Supply	142.8	+ 2.7
Commercial Sales	128.6	+ 2.5
End Stocks	5.0	
Total Use	133.6	
CCC Purchases	9.2	+7.0

Milk production is estimated at 137.6 billion pounds, a 1.6% increase. This was based on the fact that the combination of existing milk cows of 10.819 million head and relatively large number of replacement heifers, 4.757 million head, will result in an average of 10.8 million milk cows for 1985. In addition, milk production per cow after declining in 1984 should increase at least 2% in 1985 to an average of almost 12,700 pounds per cow. If anything, my projected 137.6 billion pounds of production for 1985 is low and not high.

The projected increased farm marketings is even higher, a 3.1% increase. This is due to a return to more normal on farm use of milk of about 2.5 billion pounds.

Milk sales are estimated to increase 2.5%. This could be a little optimistic but yet possible when considering retail prices, disposable income and increased levels of advertising and promotion.

Although as of January 1, 1985 milk cow numbers were down 1.3% in the Upper Midwest, a 2% increase in milk production is also possible for this region for 1985. Milk production per cow should increase at least 2% over 1984 levels. Plus the 5.6% more dairy replacement heifers than a year ago for the Upper Midwest will keep milk cow numbers at a relatively high level making a 2% increase likely.

The net result is once the Dairy Diversion Program expires milk production and milk marketings will increase resulting in possible CCC purchases of over 9 billion pounds of milk equivalent for 1985. At this level of CCC purchases the Secretary of Agriculture will have the authority to reduce the support price 50 cents per hundredweight on April 1, 1985, $12.60 down to $12.10, and again on July 1, 1985, $12.10 down to $11.60.

Impact on Farm Milk Prices and Producers:

The April 1, 1985 price support cut will not result in a lower pay price to producers because of the termination of the 50 cents per hundredweight assessment as well. The July 1, 1985 price support cut, however, will create additional financial problems for those producers who are highly leveraged.

It is estimated that less than 10% of the dairy farmers in the Upper Midwest are currently under severe financial stress, a lower percentage than for grain and cattle farmers. Another 15 to 20% have financial problems but they are manageable. Despite declining milk prices dairy farming has shown better returns than other types of farming enterprises even through 1984. The two 50 cents per hundredweight cuts in the support price will, however, place substantially more dairy farmers in a severe financial stress position. Surveys of credit institutions indicate a substantial increase cash flow problems of their dairy farmer borrowers if these cuts do take place. The impact of these cuts on the Upper Midwest could be even greater than other regions of the U.S. This is because the majority of the milk produced in the Upper Midwest is utilized for manufacturing purposes and the support price impacts directly on manufacturing milk prices. Eighty percent of Wisconsin's milk is utilized for manufacturing purposes, 87% for Minnesota, 62% for South Dakota, and 54% for Michigan.

A support price of $11.60 per hundredweight will result in farm milk prices in the Upper Midwest well below the full cost of production. USDA estimates of the full cost of production for the Upper Midwest for 1983 was $13.05 per hundredweight. Although total cash expense per hundredweight is the lowest in the Upper Midwest at $9.44 per hundredweight, highly leveraged dairy farmers with debt/asset ratios exceeding 40% have cash expenses closer to $12.00 per hundredweight leaving little or nothing for family living. Many of these highly leveraged dairy farmers are the younger farmers who started farming within the past 7 or 8 years and who now are experiencing lower milk prices, relatively high interest rates and declining equity. In Wisconsin 20% of the farmers are below age 35.

Impact on Manufacturing Milk Plants and Sales:

As previously mentioned, the stability in the support price for milk for a 16 month period under the Dairy Diversion Program reduced the risk of inventory value reduction on the part of manufacturing plants resulting in higher inventory levels of cheese and butter throughout the marketing channel and netting improved commercial sales. The anticipated 50 cents per hundredweight cut in the support price on April 1, 1985 had already impacted on dairy farmers by March 1, 1985. The Minnesota-Wisconsin Price Series after peaking at $12.72 in November 1984 has declined 51 cents per hundredweight to $12.21 in February of this year, 10 cents below the support price and is anticipated to decline further in March. Since peaking last fall wholesale butter prices have declined 18.5 cents per pound, block cheese prices 5.75 cents per pound and barrel cheese 4.75 per pound. As of March 8, 1985 wholesale butter prices were already 4 cents per pound below current CCC purchase prices, block and barrel cheese prices were 5.75 cents and 4.75 cents per pound below CCC purchase prices. Although CCC purchases of dairy products have been running well below year ago levels, in recent weeks they have exceeded year ago levels. For example, for the week of March 4-8 purchases were up 15.5%. Although these price and purchase changes are brought on because of a seasonal drop in commercial demand after January 1st, and seasonal increases in milk production, the reluctance of cheese and butter buyers and manufacturing plants to carry any major inventories going into a support price cut on April 1, 1985 is a major factor. Several Wisconsin cheese manufacturers have been experiencing difficulties in selling their cheese to buyers in recent weeks unless prices are reduced several cents per pound.

The anticipated July 1, 1985 cut in the support price could create even greater problems to manufacturers. This is because of the spring flush in milk production that occurs prior to July 1st.

Dairy Price Support Policy Considerations

I think everyone would agree there is a need to establish longer range farm policies. The dairy price support program has been under criticism and reviewed for changes since 1979. Price support provisions under the 1981 Farm Bill were amended twice. Such frequent changes makes it very difficult if not impossible for not only dairy farmers, but credit institutions, cooperatives and dairy firms to make long range management decisions.

Secondly the dairy industry must be market oriented. This means having support prices (or target prices) set at reasonable levels so as not to encourage excess milk supplies resulting in relatively large government purchases and costs. The parity concept for setting the support price for milk is no longer valid. One hundred percent of parity for manufacturing milk is currently $24.35 per hundredweight. A new price support mover such as dairy parity or cost of production index needs consideration. In addition the CCC purchase program needs to be examined. It has not been market oriented particularly in the case of butter and nonfat dry milk.

Thirdly, although the dairy industry needs to be market oriented the current dairy surplus situation would result in a harsh financial blow to dairy farmers and agribusiness dependent upon the dairy farmer if an attempt was made to reduce support prices to market clearing levels within the next year or two. Milk price would tumble close to $9 per hundredweight, a price well below the cash cost of production of a major share of the dairy farmers. A substantial number of dairy farmers would be forced out of business resulting in an over adjustment in milk production in the downward direction. Thus, such a policy would have very adverse effects not only on dairy farmers, but cooperatives, dairy firms, agribusinesses, credit institutions, and even consumers.

Because of the extent of the current milk surplus situation some orderly adjustment mechanism towards a more market oriented dairy price support program needs to be considered for 1985 dairy legislation. There needs to be an incentive not to increase and even reduce production on the part of dairy farmers so as to orderly bring supply and demand into balance while at the same time not cause excessive financial stress on a sufficiently large number of dairy farmers and dairy businesses.

Fourth, greater stability in the support (or target price) over a period of time is needed because of the problems of reduced value of inventories held by manufacturers and others as previously discussed. Freezing the support price (or target price) at one level until supply-demand is brought into balance has merit. Since the support price for milk has been decreased 50 cents per hundredweight from the $13.10 support price set back on October 1, 1983, and if two more 50 cents per hundredweight cuts occur, the support price July 1, 1985 will be down to $11.60 per hundredweight. A further cranking down of the support price is questionable. Yet the milk surplus situation still may be slow to correct itself at this support level as the marginal and highly leveraged dairy farmers are gradually squeezed out. Therefore, as I mentioned in number three, a supply management mechanism at least for the first year or two of the 1985 Farm Bill could bring about a quicker and less painful adjustment in milk supply-demand and even reduced government costs.

In the Upper Midwest several concepts have been discussed to bring about an orderly adjustment in the milk surplus situation. There is considerable interest and support in continuing some type of dairy diversion program. A two-tier price system has been offered and has some support. Basically replacing CCC purchases with a target price and deficiency payments on a [illegible] of becoming more market oriented has been discussed. Under the target-price deficiency payment concept a loan rate to manufacturing milk plants would likely be needed to reduce some of this risk of declining inventory values. The largest Wisconsin based cooperative, Wisconsin Dairies has expressed interest and received support for freezing the support price at a level of say $12.10 per hundredweight until supply-demand is back into balance. This would provide for stability in the market place. To hold down government costs for CCC purchases in excess of 4 billion pounds of milk equivalent and to discourage increased milk production producer assessments at the rate of 25 cents per hundredweight for each 2 billion pounds of CCC purchases in excess of the 4 billion pounds would be imposed. Others have suggested some combination of these alternatives.

Fifth, technological advances such as embryo transplants, sexing, and bovine growth hormone could have a significant impact on milk production in the immediate years ahead. If these technologies lower the cost of milk production, support prices (or target prices) will need to be adjusted accordingly.

Federal Milk Marketing Order Considerations

Although dairy price support legislation is of utmost concern, federal milk marketing order issues also need to be addressed. Time does not allow me to go into all the issues. Federal milk marketing orders are still very much needed but some of the issues that need to be raised are the following:

1) The inability of the Upper Midwest to share greater in the Class I fluid milk markets.

2) Mergers of orders.

3) Considering establishing additional basing points.

4) Stronger provisions for reconstituted milk, at least during tight supply-demand situations in deficit fluid milk areas.

5) Provisions for component pricing.

6) An eventual replacement for the M-W Price Series.

7) A real concern over provisions for selective reducing of Class III prices in high utilization federal orders.

These and other issues need to be addressed in the very near future.

Once again thank you for inviting me and I look forward to the following comments and discussion.

CHALLENGES FACING
CALIFORNIA'S
DAIRY INDUSTRY

James W. Gruebele, Ph.D.
Chief Executive Officer
Dairyman's Cooperative Creamery Association

March 1985

California's dairy industry has undergone dramatic changes. There has been a dramatic shift to fewer, but larger producers. The number of dairymen in California dropped from 19,428 in 1950 to 2,785 in 1984, a decline of over 85 percent. Milk production per dairyman increased from 34,000 gallons per year in 1950 to 744,000 gallons per year in 1984. Herd sizes increased from an average of 105 cows in 1950 to almost 375 cows per herd in 1984.

At one time, California was producing milk primarily for fluid consumption. The percent of market grade milk used for Class I products in California declined from 78 percent in 1960 to 42 percent in 1984. California has become much more prominent in terms of milk production and as a source of manufactured dairy products. In fact, California is now second only to Wisconsin in total milk production. Total milk production in California increased from 8 billion pounds in 1960 to 15.1 billion pounds in 1984, an 89 percent increase in milk output. Production of milk in Wisconsin increased by 32.5 percent and milk production nationally increased by 11.1 percent during the same time period. The percent of U.S. milk production in California increased from 6.5% in 1960 to 11.1% in 1984.

From 1980 to 1984, milk output in California increased by 12 percent compared to a 5.4 percent increase in Wisconsin and a 6.4 percent increase nationally. So, California's importance in milk output continues to grow.

Milk cow numbers in California grew by 18 percent from 1960 to 1984 compared with a decline of 17 percent in Wisconsin and a decline of 62 percent nationally.

Milk production per cow in California grew from 9,780 pounds in 1960 to 15,000 in 1984, a 53 percent increase compared with a 39 percent increase in Wisconsin and a 66 percent increase nationally. California and Washington have been the leaders in terms of production per cow.

As mentioned earlier, production of milk in California grew more rapidly than Class I sales in the last 25 years. Consequently, more and more milk is being utilized for manufacturing purposes. Butter production from 1960 to 1983 increased by 446.3 percent in California compared to a 5.4 percent reduction nationally. During this period, national per capita consumption of butter declined by 32 percent. The production of butter in California as a percent of total U.S. output increased from 2.5 percent in 1960 to 5.8 percent in 1983.

Production of nonfat dry milk powder from 1960 to 1983 increased by 275.9 percent in California, compared to a 17.5 percent decline nationally. The per capita consumption of nonfat dry milk powder declined by 52 percent from 1960 to 1983. These production trends in butter and nonfat dry milk powder in California make very little economic sense.

The production of cheese increased significantly for the U.S. as well as for California. Production of cheese from 1960 to 1983 in California increased by 1437 percent compared to a 226 percent increase for the United States as a whole. The U.S. per capita consumption of cheese increased by 148 percent from 1960 to 1983.

One of the problems in California is that there is a serious imbalance in the production of dairy products. The California manufacturing plants are not producing to the market. The consumption of cheese in California is much larger than the production of cheese. According to a recent study by the Stanford Research Institute, California imports 315 million pounds of cheese annually. However, California manufactures significantly more butter and nonfat dry milk powder than is being consumed within the state. There is a huge market for cheese in the Western sector and the whole area is in a deficit position in cheese. The per capita consumption of cheese continues to increase. On occasion, considerable volumes of butter and powder are transported from California to eastern areas to seek a commercial market. In the meantime, large volumes of cheese move from the midwest to California. If there were a better balance in the production of dairy products in California, there would be less waste in transporting manufactured dairy products around the country. The

California cheese industry also needs to build cut and wrap operations in order to make the cheese ready for the consumer market.

There are several reasons for the milk output trends in California:

1. California is blessed with a favorable climate which helps to minimize the fixed costs required to construct a dairy operation.

2. California has excellent quality hay and is able to produce alfalfa yielding seven to nine cuttings a year.

3. California producers are excellent managers. They are also very progressive and extremely willing to adapt to new technology.

4. The California dairy industry has had the cooperation of the California Department of Food and Agriculture which has provided regulations that are relevant and applicable to production and marketing conditions in California.

This does not mean that milk prices are high in California. In fact, the Class I milk price in California was 44-cents below the national average in 1980, 91-cents below the national average in 1983 and 31-cents below the national average in 1984. The California dairy industry is very efficient. The California producers need an environment where they are able to adopt new technology, where they can grow to spread fixed costs and where they have the freedom to make choices. This industry is competing for labor, capital, land and management resources with more than 240 different commodities. In order to compete effectively, it is extremely important that the dairy industry be allowed to progress by adopting new technology and by being allowed to grow in order to achieve an economic sized unit.

Another significant problem in California is the water situation. Water has been, and increasingly will be, a scarce resource in California. The cost of water will continue to escalate significantly. Agriculture is a large user of water and there will continue to be changes in this situation. These changes could and probably will have a significant impact on the California dairy industry.

Other problems in California include the use of pesticides, herbicides, water quality, selinium and other environmental issues. All of these conditions can, and probably will, have a significant impact not only on the dairy industry but also all of agriculture.

New Technology Will Continue to Have an Impact On the Dairy Industry

There are a number of significant new innovations that could significantly affect costs of production and milk output. One of these concepts is egg flushing and embryo transplant. This concept could significantly increase the genetic potential of every dairy herd in the United States. As is true in every other agricultural industry, the dairy industry has its innovators who are likely to be the first to adopt new technology like egg flushing. Then, there are others who are the followers who will later adopt the new technology once the neighbors have proven its success. Then, there are the laggards who either are forced because of the price or costs to either adopt the new technology or to exit from the industry. Nevertheless, this particular innovation has the potential of having a dramatic impact on milk output per animal as well as on costs of producing milk. Technology of this sort not only reduces costs; but, it also expands output.

The whole concept of gene splitting could also eventually have a dramatic impact on milk output and on the costs of producing milk. It is difficult to predict how soon this whole arena of work might have an impact on the U.S. dairy industry.

Three-Time-A-Day Milking

There have been a number of dairymen in California that have gone to three time-per-day milkings. The experience is that for a time there is a significant increase in milk output; but, then after a period of years, milk output tends to decline in these herds. It is apparent that we don't know how to get the cows to consume enough feed to sustain the higher levels of milk production. Further research is needed in the feeding and nutrition area before three time-per-day milking becomes an economically feasible practice.

Hormones

There has been considerable discussion about the use of special hormones to stimulate additional milk production in dairy cows. Some of the experiments showed positive results. However, our animal nutritionists question whether those higher levels of milk production can be sustained. The same problem of feeding and taxing the cow's body as with three time-a-day milking might apply. Further research is needed here also.

What Kind of Program Is Needed

The U.S. dairy industry is suffering from irresponsible price enhancing policies of the late 70's and early 1980's. The question is, "How do we adjust enough resources out the dairy industry to bring supply and demand back into balance?" There are, and always have been, two basic approaches - one is supply management; and, the second one is price.

Our association, along with most producers in California, favors the price approach. Price is an excellent allocator of resources. When production is too large, the price should be lowered. As a result, the least efficient resources or dairymen tend to be forced out of business and the most efficient resources or dairymen remain. The lower milk price not only affects the supply side; but, also the demand side. Consumers tend to consume more products at a lower price.

We are opposed to supply management because such an approach impedes efficiency, impedes growth, stifles progress and tends to keep inefficient resources in business. It tends to restrict the adoption of new cost reducing technology because almost all such technology also tends to expand output. A mandatory base approach freezes production regionally; and, almost in all cases, the value of bases tend to be capitalized into fixed assets. Once in place, it is difficult to remove such a program. It also provides an artificial barrier to new entry. A supply management approach would be a strong deterrent to California's dairy industry and would make it difficult for the California dairymen to compete with other agricultural enterprises for the land, capital, labor and management resources in California.

Dairy Purchase Program Can Work Well

We support a continuation of a government purchase program for butter, powder and cheese. We believe that such a program, if developed on an economic basis, can help to stabilize the dairy industry and benefit not only dairymen in this country, but also consumers. Because of international programs of subsidy, it is also essential that the import quota program be maintained in this industry. In principal, the support program needs to reflect changes in supply and demand. If the Secretary of Agriculture has sufficient discretion, we believe that a support program can be developed that will maintain a market clearing support level that will minimize government purchases and government expenditures for dairy products.

The permanent dairy legislation which was passed in 1949 worked relatively well from 1949 through 1978. Government purchases of dairy products during this period averaged only 4.6 billion pounds. From 1972 through 1978, government purchases averaged only 2.8 billion pounds. In the last 5 years, government purchases of dairy products averaged 12.2 billion pounds of milk equivalent. This was due to the price enhancing policies of the late 70's and the early 1980's. The Secretary of Agriculture did not have the needed discretion to bring about the needed adjustment in the dairy industry during this period. From 1949 through 1976, the Secretary of Agriculture had the discretion to set the price support level between 75 to 90 percent of parity. The price of milk was high enough at 90 percent of parity to attract resources; and, it was low enough at 75 percent of parity to drive resources out of business. This is why the program worked pretty well from 1949 to 1978. It is important to recognize that because of productivity changes in the dairy industry the old dairy parity level of 75 percent would not be low enough to drive resources out of the dairy industry today. We would recommend that the old dairy parity program be revised. In any price support program, the key is enough discretion be left in the Secretary's hand so that appropriate adjustments can be made to insure an adequate but not more than adequate supply of milk and dairy products.

What Course of Action Is Recommended?

First, in principal, we strongly believe that price should be used to bring the supply of, and the demand for, milk back into balance. We think that the adjustment should be made over a 1 to 3 year span. It took awhile to develop the problem; and, we need some time to solve the economic problems of the dairy industry. A price solution will mean that the most efficient resources will remain in business and that milk will be produced in areas where milk has a comparative advantage. Dairymen will be free to grow into economically efficient sized units; and, they will be free to adopt new cost reducing/output increasing technology. Such an approach will permit the California dairymen to effectively compete with other agricultural enterprises for scarce resources.

We have the following proposal:

1. The price of milk would continue to be supported at $11.60 per hundredweight on October 1, 1985, which assumes that the Secretary of Agriculture will reduce the price of milk by 50-cents on April 1, 1985 and July 1, 1985.

2. Secondly, the producers would share in the cost of the dairy price support program. The federal government would pay for the cost of purchasing 4 billion pounds of milk for use in the school lunch program and various other foreign and domestic programs. The dairymen in this country would be assessed for government purchases beyond 4 billion pounds of milk equivalent. The cost of the government purchase program is estimated to be 15-cents per hundredweight per billion pounds of purchase. This program would minimize the treasury cost of the dairy price support program. Additionally, an assessment of this sort would provide the dairymen a further price signal to reduce milk output. The assessment would be placed on all milk on a per hundredweight basis, and it should be assessed on all milk in the country. The size of the assessment would be based on the projected

cost and volume of dairy purchases beyond 6 billion pounds of milk.

3. Only as a means of compromise, our dairy cooperative would be willing to support a voluntary paid diversion program only when milk surpluses become very large. Our proposal is that a voluntary paid diversion program would be implemented on October 1, 1986 if projected government purchases exceed 7 billion pounds of milk equivalent. If implemented, the voluntary paid diversion program should remain in effect for a year, or until projected purchases drop below four billion pounds of milk equivalent. There would be a separate assessment to pay the incentive payment to producers who sign a contract with the ASCS office to reduce milk shipments between 5 and 30 percent below base. The base would be the production in the last 4 quarters.

4. The price support of $11.60 per hundredweight would remain in effect until government purchases of dairy products drop below 6 billion pounds of milk equivalent. Once this happens, then we would support the new dairy index program as developed by the National Milk Producers Federation, which is designed to move the price of milk up or down depending upon the changes that occur in the indices used in the new dairy index. The National Milk Producers Federation program also contains a productivity index, and we believe that this concept should also be incorporated into the pricing program. Finally, the National Milk Producers Federation includes a supply-demand adjuster. The supply-demand adjuster would raise the economic formula price when purchases are low and it would reduce the economic formula price when purchases are high. The supply-demand adjuster includes an automatic adjuster; but, it also provides some authority to the Secretary

of Agriculture to move prices up or down depending upon the level of government purchases.

Price Adjustment in April and July 1988 Should Be an Across-the-Board [illegible]

The Food Security Act [illegible] calls for price reduction [illegible] per hundredweight on April 1, 1988 and on July 1, 1988 if surplus conditions occur. Based upon current supply-demand conditions, we believe the Secretary will implement the price reductions. We recommend, however, [illegible] placed on the solids-not-fat side. This would mean that the price support for butter would remain at $1.4825; and, that the price support for powder would be reduced 8-cents in April 1985 and another 8-cents in July 1985. We believe these price adjustments would help encourage the commercial use of nonfat dry milk powder and move the pricing system toward a proper economic relationship between fat and solids-not-fat.

I appreciate this opportunity to discuss California's situation and position relative to an economic solution to the milk pricing problems in the dairy industry.

[Attachments follow:]

PRODUCTION OF SELECTED
DAIRY PRODUCTS

(Million Lbs)

	CALIFORNIA	WISCONSIN	UNITED STATES
BUTTER			
1950	34.6	161.6	1386.4
1960	34.3	275.5	1372.9
1980	185.2	289.2	1145.3
1983	190.8	304.7	1299.2
Percent change 1960-1983	456.3%	10.6%	- 5.4%
CHEESE (excluding cottage cheese)			
1950	10.1	558.0	1191.5
1960	18.3	641.1	1477.9
1980	161.5	1484.3	3983.1
1983	281.2	1728.3	4818.5
Percent change 1960-1983	1436.6%	169.6%	226.0%
NONFAT DRY MILK POWDER			
1950	44.9	257.8	881.5
1960	71.7	424.8	1818.4
1980	242.6	118.6	1160.7
1983	269.5	129.2	1499.9
Percent change 1960-1983	275.9%	-69.6%	- 17.5%

TOTAL COST OF MILK PRODUCTION
IN CALIFORNIA
1983*

(Dollars per Hundredweight)

Cost Item	North Valley	South Valley	So. Calif.
Feed	6.56	6.74	6.99
Labor	1.37	1.20	1.36
Herd Replacement	1.12	1.07	1.04
Operating Costs	1.37	1.31	1.47
Taxes and Insurance	0.08	0.06	0.08
Marketing	0.98	0.96	1.09
Depreciation	0.32	0.25	0.25
Return on Investment	1.87	1.82	1.95
Management	0.61	0.62	0.65
Total	14.28	14.03	14.88

3.5% B.F. Equivalent

Source: California Bureau of Milk Stabilization
Milk Production Cost Index, Dec. 1984

ANNUAL SUMMARY
GOVERNMENT PURCHASES
AS A PERCENTAGE OF PRODUCTION

BUTTER

	PRODUCTION	PURCHASES	%
		(Million Lbs)	
1949	1,412.10	111.70	7.91
1950	1,386.40	14.60	1.05
1951	1,203.00	-27.30	-2.27
1952	1,188.20	16.10	1.35
1953	1,412.10	355.20	25.15
1954	1,448.90	305.10	21.06
1955	1,382.90	162.00	11.71
1956	1,413.30	164.60	11.65
1957	1,414.10	172.50	12.20
1958	1,389.60	183.70	13.22
1959	1,334.40	123.70	9.27
1960	1,372.90	144.80	10.55
1970	1,137.02	305.40	26.86
1971	1,143.56	262.40	22.95
1972	1,109.55	220.20	19.85
1973	918.62	26.10	2.84
1974	961.72	66.90	6.96
1975	980.48	26.10	2.66
1976	978.63	114.90	11.74
1977	1,085.60	134.25	12.37
1978	994.29	46.20	4.65
1979	984.60	233.00	23.66
1980	1,145.25	382.10	33.36
1981	1,228.19	381.90	31.09
1982	1,256.96	410.30	32.64
1983	1,299.25	239.40	18.43

ANNUAL SUMMARY
GOVERNMENT PURCHASES
AS A PERCENTAGE OF PRODUCTION

CHEDDAR CHEESE

	PRODUCTION	PURCHASES	%
		(Million Lbs)	
1949	1,199.40	25.50	2.13
1950	1,191.50	108.90	9.14
1951	1,161.30	.80	.07
1952	1,170.30	2.80	.24
1953	1,344.40	307.80	22.89
1954	1,383.20	275.70	19.93
1955	1,366.90	150.00	10.97
1956	1,387.70	187.90	13.54
1957	1,407.40	241.50	17.16
1958	1,399.40	80.40	5.75
1959	1,383.10	57.20	4.14
1960	1,477.90	.30	.02
1970	1,423.40	56.80	3.99
1971	1,510.62	87.00	5.76
1972	1,672.80	20.10	1.20
1973	1,672.52	4.90	.29
1974	1,401.85	93.50	6.67
1975	1,204.91	33.30	2.76
1976	2,048.83	96.90	4.73
1977	1,517.54	64.50	4.25
1978	1,505.52	12.10	.80
1979	2,189.90	335.60	15.32
1980	1,750.70	532.10	30.39
1981	1,899.32	598.60	31.52
1982	2,157.48	820.30	38.02
1983	2,351.40	542.00	23.05

ANNUAL SUMMARY
GOVERNMENT PURCHASES
AS A PERCENTAGE OF PRODUCTION

NONFAT DRY MILK

(Million Lbs)

	PRODUCTION	PURCHASES	%
1949	934.90	325.50	34.82
1950	881.50	327.20	37.12
1951	702.50	35.63	5.07
1952	863.20	42.30	4.90
1953	1,213.80	597.10	49.19
1954	1,334.00	644.40	48.31
1955	1,365.80	534.70	39.15
1956	1,490.00	723.40	48.55
1957	1,623.90	825.20	50.82
1958	1,709.70	886.00	51.82
1959	1,723.20	830.30	48.18
1960	1,818.40	852.80	46.90
1970	1,444.36	452.30	31.31
1971	1,417.65	463.50	32.69
1972	1,269.31	259.90	20.48
1973	916.57	41.60	4.54
1974	1,019.92	393.60	38.59
1975	993.99	274.80	27.65
1976	926.18	186.40	20.13
1977	1,106.62	342.00	30.90
1978	920.42	202.50	22.00
1979	908.71	592.20	65.17
1980	1,106.62	786.90	71.11
1981	1,314.27	948.80	72.19
1982	1,400.46	1,047.20	74.78
1983	1,499.90	769.10	51.28

PER CAPITA CONSUMPTION
OF SELECTED DAIRY PRODUCTS
1960 & 1983

	1960	1983	% CHANGE
AMERICAN CHEESE	5.4	11.6	114.8
OTHER CHEESE	2.9	9.0	210.3
TOTAL CHEESE	8.3	20.6	148.2
BUTTER	7.5	5.1	- 32.0
NFDM	6.2	3.0	- 52.0

Source: Dairy Situation, Economics Statistics and Cooperative Services, USDA.

MILK PRODUCTION
IN SELECTED AREAS
(MILLION LBS)

	CALIFORNIA	WISCONSIN	UNITED STATES
1960	8059	17780	123109
1983	14758	23800	139968
% CHANGE	83%	34%	14%

Source: Annual Summaries -- Milk Production, Disposition, and Income, USDA Crop Reporting Service.

PRODUCTION PER COW
IN SELECTED AREAS
(POUNDS)

	CALIFORNIA	WISCONSIN	UNITED STATES
1960	9780	8270	7029
1983	15518	12900	12857
% CHANGE	59%	56%	79%

Source: Annual Summaries -- Milk Production, Disposition, and Income, USDA Crop Reporting Service.

MILK COW NUMBERS IN SELECTED AREAS

(THOUSANDS)

	CALIFORNIA	WISCONSIN	UNITED STATES
1960	824	2150	17515
1983	951	1845	11120
% CHANGE	15%	- 14%	- 37%

Source: Annual Summaries -- Milk Production, Disposition, and Income, USDA Crop Reporting Service.

A Southern Perspective on Dairy Policy

Harold M. Harris, Jr.
Clemson University

For many years, despite efforts by people like me to convince them otherwise, dairy farmers in the south tended to believe that the dairy price support program did not affect them. Today, after numerous changes in the program over the past several years, they are painfully aware of the program's impact on their pocketbooks. The assessment program, which resulted in a semisuccessful lawsuit by South Carolina dairy interests against the Secretary of Agriculture, and the dairy diversion program, which caused severe problems in the southeast last year, were two of the major events that caused them to change their minds.

Four Key Considerations

There are four major points that I would like to address today. From the standpoint of a university agricultural economist working with the dairy industry in the southern United States, it is my belief that these ought to be important elements of the upcoming dairy policy debate. These points are:

1) The dairy industry in this country differs widely by region. Because of these different characteristics, alternative program choices have different impacts by region. The southern

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Testimony presented before the U.S. House of Representatives Committee on Agriculture, Subcommittee on Livestock, Dairy and Poultry, Washington, DC, March 20, 1985.

industry in particular possesses characteristics that make it more vulnerable to certain policies. These unique aspects need to be taken into account in devising the program for the 1985 farm bill.

2) While concrete data are not readily available, there are indications that the financial situation in the southern dairy industry is deteriorating rapidly. Dairy farming, in relative terms, has been a more attractive alternative in recent years to other on-farm enterprises, which is a major cause of recent problems with the program. Causes of recent deterioration in financial conditions are multifaceted, but can be traced in large part to the Federal budget deficit. The sooner the problem with the deficit can be remedied, the sooner will financial problems in the farm sector (including dairy), be eased. I and most of my colleagues foresee an extremely painful transition period in southern agriculture, irrespective of the content of the 1985 Farm Bill. Control of the deficit will make this transition less painful.

3) The biggest problem facing the dairy industry, both short term and long term, is excess capacity. The potential for excess production is in fact likely to increase in the future as dairy farmers adopt new technology that is coming on stream even today. This potential needs to be explicitly recognized, and a dairy program that is flexible enough to deal with increasing productivity on a long term basis should be designed.

4) The set of institutions and laws affecting the dairy industry is much broader than the price support program, though

this is the issue foremost on our minds today. These include interrelated laws and regulations dealing with cooperatives, import quotas, dairy product exports, and the Federal milk marketing order program. In particular, Congress and USDA are likely to be pressed in coming months to realign the transportation differentials currently in effect in the Federal milk marketing orders. This pressure is likely to be strongest from southern farmers. But the issue is much more complex than the way it is often presented, and I would urge caution and further study of this problem prior to action.

Characteristics of the Southern Dairy Industry

There are a number of characteristics that set the southern dairy industry apart from both the traditional dairy areas of the northeast and upper midwest, and the new dairy areas--California and parts of the southwest. These characteristics dictate a different impact of alternative policies on the area from other producing regions, and thus, a different set of producer attitudes toward government programs.

The south is a fluid (beverage) milk market. There is little manufacturing grade milk produced, less than 1 percent of marketings. Surplus Grade "A" milk is used in manufacturing products, but the region consumes more dairy products than it produces. Indeed, several southern states are deficit in the production of fluid milk and have to import milk for bottling purposes.

Average farm size is large compared to the national average, though much below that of the west. Herd size averages about 55 cows, including Florida, Table 1. Most operations attempt to grow all the forage they can, but are primarily dependent on purchased grain and concentrates. Since there is a large land base, investment per cow is high, averaging [illegible] about as was studied in South Carolina. Most production units are highly specialized, with over [illegible] percent of receipts coming from the sale of milk and cull cows, Table 1.

Costs of producing milk are higher in the south than elsewhere. Feed prices and higher land prices are the two main factors. Although prices are also higher in the region, data studies indicate that the south is also the lowest return milk producing region. Average interest returns above cash costs were estimated at [illegible] in [illegible] by [illegible] versus [illegible] in the Appalachian region.

As a consequence of these characteristics, it is not surprising that southern dairymen tend to favor market oriented price support policies. They receive only indirect, not direct, benefits from CCC purchase activities. Nor is it surprising that a considerably larger proportionately signing for the [illegible] diversion payment occurred in the south last year. As a result, local shortages of milk in the south developed despite a condition of continuing abundant supplies on a national basis. Southern dairy farmers had to pay a [illegible] price to [illegible] milk from plants in the midwest that were still [illegible] out butter, cheese and powder destined for government warehouses.

In short, while in my opinion we need a [illegible], not a [illegible], dairy program, that program should take into account regional characteristics. Programs that penalize some regions vis-a-vis others, as was the case with the current diversion program[1], should be avoided if possible.

Financial Situation of Dairy Farmers in the South

Until recently, dairy farmers in the south were relatively well-off in terms of financial condition compared to virtually all other types of farms. Falling milk prices and land values are rapidly changing this picture. Data are not readily available, and are difficult to obtain on a timely basis.

At Clemson, we conduct an ongoing financial records program for about 10 percent of the state's 350 dairymen. We are required by state law to present an annual report on the financial health of the industry in South Carolina to the State Dairy Commission. This is not a random sample of the dairies in the state. Participants pay a fee for the service. But based on survey data, it is believed that this group is representative.

Table 3 highlights some financial data from the study. The data are one year old. We are currently compiling the comparable statistics for last year. One-half of the farms fall into the category of severe to extreme financial hardship, as defined by a debt to asset ratio of greater than 0.4[2]. Note in Table 3 that largely because of higher interest payments, net farm income is negligible on these farms as compared to $18,000 for "healthy" operations.

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[1] This is not to say that most of the thousands individual producers in the south who contracted for payments for reduced marketings did not benefit.

Debt per cow was almost four times as great. While cash available for debt service and family living was greater than for the financially healthy farms, higher debt payments eroded all cash flow for these highly leveraged operators. Debt payments averaged about 40 percent of the milk check for the highly leveraged farms as opposed to less than 20 percent for the healthy operations[3].

Are the financially distressed farms in trouble because of poor management or insufficient scale? In some cases this is true. Yet they cannot expand, as there are no funds to do so. Production per cow was actually considerably higher for the financially stressed producers. Causes for financial stress are multifaceted, but most of the farms in trouble are those who entered the business or rapidly expanded in the late 1970's and early '80's.

Table 4 presents an overview of financial conditions of dairy farmers in the southern region in 1983, based on a survey of over 3600 producers by dairy marketing economists at southern Land Grant

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[2] The .4 and .7 ratios are used as signs of financial distress because these are the current levels used as signals by USDA for all farm types. Because of a regular flow of funds into the business and greater stability of output, it can be argued that dairying can support higher debt to asset ratios. On the other hand, we have difficulty budgeting positive cash flow under conventional financing for operations with debt/asset ratios greater than about .3.

[3] The question arises as to why debt payment as a percentage of milk sales was higher for the "severe" stress group than the "extreme" stress farms. The answer is that latter operations were in default on portions of their debt.

universities. At that time 32 percent of southern dairy farms had less than 50 percent equity in their business. Since the survey was conducted, these conditions have eroded as land values and incomes have declined.

The Federal budget deficit, which has caused high interest rates and a strong U.S. dollar, must bear a large share of the blame for the deteriorating financial situation in the industry. While dairy products are not a major export commodity, the strong dollar has curtailed agricultural exports, thus driving down prices and land values in the farm sector as a whole. Asset values in dairying have thus declined. Meanwhile, high interest rates have been particularly devastating in the milk industry, one of the most highly capitalized agricultural enterprises. In South Carolina a typical 150 cow operation would require an initial investment of around $1 million.

My conclusion is that the well being of U.S. agriculture, including the dairy sector, will be determined in large part by policy matters outside of the confines of the 1985 Farm Bill. The sooner the deficit is brought under control, the easier will be the pain of adjustment in both dairying and agriculture in general.

Excess Capacity

Over the past four years, the government has averaged purchasing about 10 percent of U.S. milk output. To oversimplify, there are just too many dairy cows, too much equipment, and painfully, too many farmers producing milk compared to what the market place will absorb. This has been the long term problem plaguing U.S. Agriculture for many years, the problem that was the genesis of the commodity programs we have today.

In dairying, the excess capacity problem in both the near term and the long term is even more severe than for U.S. agriculture in general. In the near term, the problem is critical because over the past five years, there has been virtually no net exit of resources from the industry.[4] In large part, current overproduction stems from erroneous price signals from the program in the late 1970's and early 1980's.

In South Carolina, for example, dairy farm numbers had been trending downward steadily during recent history at about 5 percent annually. But in the late 1970's, net exits stopped. Number of retirees and those forced from the business was offset by new entrants. As a consequence, what we have today is a pent-up need for resources to leave the business. Some people in Washington have taken a callous view of such problems, saying that government has no responsibility to bail people out because of poor management decisions. Poor management is a factor in many instances, but I would argue that it is more the case that government is responsible for much of the difficulty. It drew resources into the industry with high support prices, then cut the rug out from under new entrants with monetary and fiscal policy. Easing the pain of transition out of the dairy business and farming in general should thus in my view be a major focus of current farm policy. Short term adjustment problems will be severe in dairying because of a high degree of asset fixity. There is simply no good alternative use for a milking facility.

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[4] The dairy diversion program did result in a temporary adjustment, particularly in terms of dairy cow numbers. But when the program expires this month, cow numbers and milk production are expected to rebound sharply.

Even if presently needed adjustments are made, the excess capacity problem will not go away. Within the next decade, new technological developments, such as embryo transplants and bovine growth hormone, are likely to propel even greater productivity increases. The potential for excess capacity is likely to pose a more severe threat as we move into the 1990's. My colleague, Geoff Benson of North Carolina State University, yesterday testified before the Senate counterpart of this committee on historic productivity increases and potential future increases in the industry. A figure from his testimony highlighting recent trends is attached.

The challenge is therefore to design a long-term dairy program that is flexible enough to meet the needs of likely future developments. Presuming that the goal of the dairy price support program is stability and an income floor, a cost-price moving mechanism with a supply-demand adjuster thus may become one of the key alternatives for your consideration in the new farm bill.

Federal Market Orders

The implicit transportation differential, which is used to set minimum Class I prices in the 47 Federal milk marketing orders around the country has not been changed since the 1960's.

For example, the minimum Class I price in the state of Georgia is the Minnesota-Wisconsin price plus $2.30. But today, it costs perhaps $3.50 to ship milk from the upper midwest into Georgia. With a goal of protecting fluid milk prices as manufacturing prices fall, it has been proposed that Congress take action to raise the differential to reflect true transportation costs.

But the issue is considerably more complicated than just the cost of moving milk. Just as important is the question of where the basing point or points should be. The northeast and California are two logical candidates. The best overall interests of the industry may be served by allowing USDA to address this issue cautiously, through study and the public hearing process used in the Federal order system. The Administration's Farm Bill proposal calls for the creation of a Task Force to study Federal milk marketing issues. But I would suggest that this particular problem needs to be resolved prior to 1990, the year that the Task Force would be required to submit its report.

(Attachments follow:)

Table 1. Average Size of Dairy Herd, 11 Southern States, 1983

State	No. Cows
Alabama	133.72
Arkansas	66.85
Georgia	142.22
Kentucky	57.50
Louisiana	101.62
Mississippi	95.59
North Carolina	92.65
South Carolina	139.71
Tennessee	85.69
Texas	137.46
Virginia	89.39
All	94.24

Table 2. Percentage of Income from Sale of Milk and Dairy Livestock, 11 Southern States, 1983

State	Percent of Income From Milk						
Row Percent	90-100	80-89	70-79	50-69	25-49	0-24	Total
Alabama	65.90	13.87	8.09	8.09	3.47	0.58	
Arkansas	73.33	11.85	10.37	3.33	1.11	0.00	
Georgia	80.81	10.70	5.17	1.85	1.48	0.00	
Kentucky	26.36	24.81	25.58	14.47	6.98	1.81	
Louisiana	87.45	4.76	6.06	1.73	0.00	0.00	
Mississippi	73.36	11.07	6.97	4.92	2.87	0.82	
North Carolina	76.61	12.89	5.73	3.34	1.19	0.24	
South Carolina	70.66	14.37	7.78	4.19	2.40	0.60	
Tennessee	62.00	16.48	14.34	5.50	0.38	0.80	
Texas	84.94	6.69	5.28	1.34	1.22	0.54	
Virginia	73.64	14.16	6.75	4.36	0.87	0.22	
Total	64.00	14.54	12.06	6.08	2.56	.72	14949

Table 3. Selected Characteristics of 24 South Carolina Dairy Farms, by Debt to Asset Ratio, 1984.

	Percent of Farms	Ave. No. Cows	Net Farm Income	Debt/ Cow	Cash Available For Debt & Farm Living	Debt Payment % of Milk Sales
Extreme stress[1]	12.5	123	-38,074	4,131	28,594	32
Severe stress[2]	38.5	94	13,936	4,014	61,879	42
Severe plus extreme[3]	50.0	101	934	4,042	53,558	39
Financially sound[4]	50.0	185	17,931	1,198	46,954	18
All farms	100.0	143	9,432	2,620	50,256	29

Source: Clemson University Dairy Records Program

[1] Debt to Asset ratio over 70 percent

[2] Debt to Asset ratio 40 to 70 percent

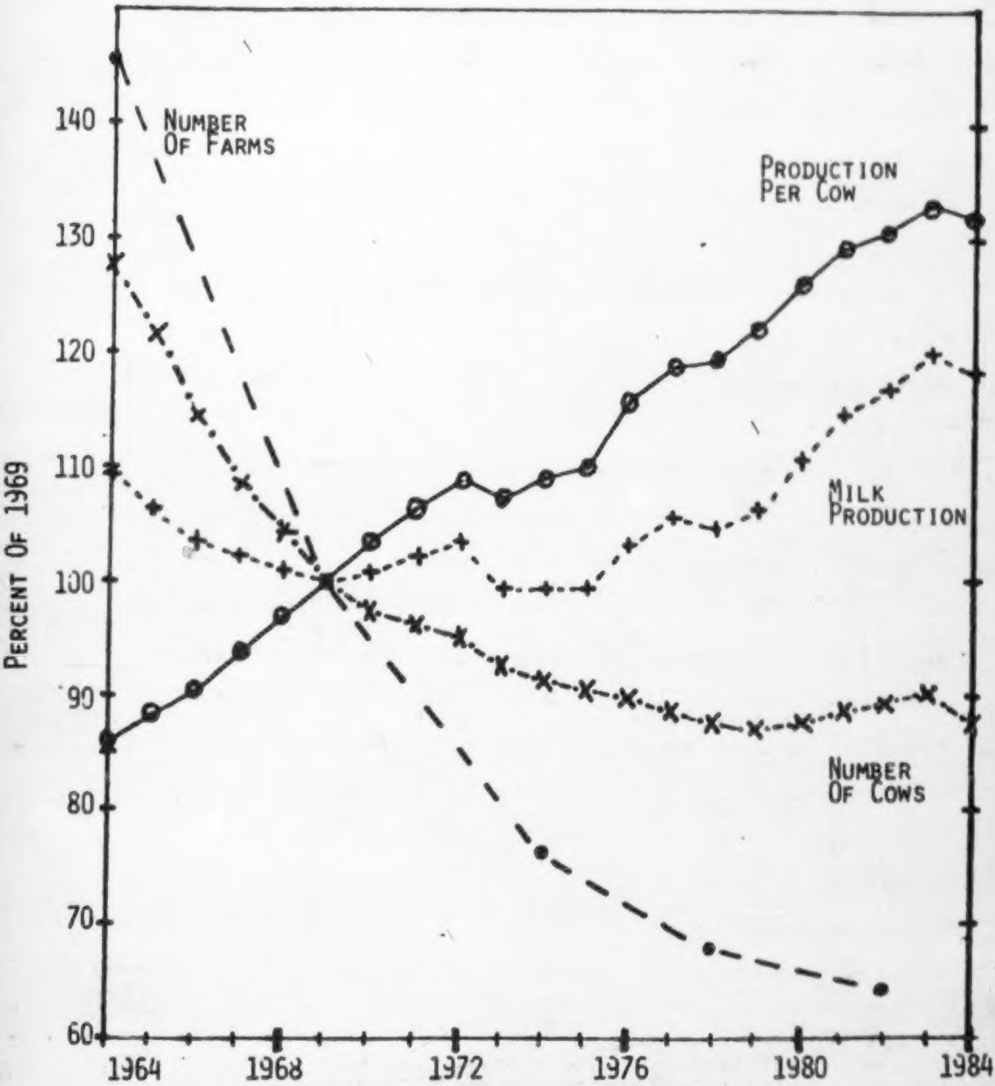
[3] Debt to Asset ratio over 40 percent

[4] Debt to Asset ratio less than 40 percent

Table 4. Percentage of Dairy Farmers in Various Equity Classifications, 11 Southern States, 1983

State					
Row Percent	100%	75-99%	50-74%	25-49%	0-24%
Alabama	21.84	21.84	21.84	12.07	21.84
Arkansas	17.65	23.53	25.74	14.34	18.75
Georgia	11.58	23.55	21.24	16.99	26.64
Kentucky	26.26	22.28	16.98	15.92	18.57
Louisiana	17.67	23.71	25.43	15.09	18.10
Mississippi	21.40	16.46	25.51	16.87	19.75
North Carolina	26.85	29.06	19.70	10.84	13.55
South Carolina	19.75	20.37	25.31	19.75	14.81
Tennessee	26.99	23.70	20.60	13.11	15.61
Texas	19.77	20.41	21.72	18.42	19.67
Virginia	27.07	32.53	23.14	8.73	8.52
Total	22.90	23.67	21.23	14.72	17.44

INDICES OF MILK PRODUCTION, NUMBER OF COWS, MILK PER COW, AND NUMBER OF DAIRY FARMS WITH 10 OR MORE COWS, 1964 TO 1984, (1969 = 100).



Hearing on Dairy Policy Issues[1]

I appreciate this invitation and opportunity to present some information on dairy policy issues. My intent is to briefly address three areas: (1) an overview and significant trends in the dairy industry; (2) some of the critical policy questions; and (3) some short term projections that emphasize the challenges in front of us in dairy policy.

In Ohio, we identify ourselves as the most eastern Corn Belt state. The 6,130 Grade A dairy farms in Ohio rank among the smallest commercial dairy farms in the United States. In 1983, for example, the average daily quantity of milk shipped per dairy farm in Ohio's two large Federal order milk markets was 1,670 pounds; the other end of that distribution shows Florida markets at 11,000 pounds per producer per day; the Central Arizona market at 20,000 pounds; and California at even larger volume. Our 2,500 Grade B farms in Ohio are even smaller, averaging about 400 pounds per day. Indiana, Michigan, Western Pennsylvania, Kentucky, and West Virginia also fit the Ohio mode in terms of producer size.

Production

To get some insight as to where we are going in the dairy industry nationally, it is necessary to review the major trends.

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[1] Robert E. Jacobson, Professor, Agricultural Economics, The Ohio State University, for presentation to Livestock, Dairy and Poultry Sub-Committee of the House Agriculture Committee, Washington, D.C., March 20, 1985.

Table 1 highlights key factors in the national milk productio picture.

Table 1. Number of Milk Cows, Production Per Cow, and Total Milk Production, United States, 1945-1984

Year	Number of Milk Cows	Production Per Cow	Total Milk Production
1945	25,0[illegible]3,000	4,787 Lbs.	119.8 Bil. Lbs.
1955	21,044,000	5,842	122.9
1965	14,954,000	8,304	124.2
1975	11,134,000	10,350	115.3
1984	10,840,000	12,495	135.4

The year 1945 is a convenient starting point for evaluating the data because that is the year of record milk cow numbers in this country. Today we have only 43 percent as many milk cows as we had 40 years ago. Meanwhile, production per cow on average is up 2.6 times from the 1945 level. The 1940s heralded the introduction of artificial insemination. Production per cow, which had been static in the 4,000 pound range for decades prior to that time, began its climb. An important point is that if no other supply factors than production per cow changed over the 1945 through 1984 period, the number of dairy farms required to supply our markets in 1985 would be only 43 percent of the number that produced milk in 1945. The absolute certainty that future increases in production per cow will continue to place heavy downside pressure on milk cow numbers and dairy farm numbers helps focus the policy issue.

Producer Structure

One measure of the huge restructuring of the milk producer sector in the 1945-1984 period is to review data on the number of farms with milk cows.

Year	Number of Farms With Milk Cows, U.S.	Average Number of Cows Per Farm
1945	4,481,384	5.6 cows
1964	1,133,589	13.8
1984	285,740	37.9

The number of farms with milk cows is not the best measure of what describes structure of the milk producer sector. Only about 60 percent (170,000 dairy farms) can actually be categorized as commercial dairy farm operations. However, the data do reveal that even through this entire post World War II period, with the Federal dairy programs that have been operative (price supports, Federal market orders, Section 22 import quotas, and some antitrust protection for marketing cooperatives), the fewer and larger phenomenon has moved at a rapid pace. Yet, the milk industry continues to be a family farm industry. I do not know of a single dairy farm in the state of Ohio, for example, that can be construed as being anything other than a family farm enterprise. Census of Agriculture data confirm that dairying is the least concentrated of seventeen major agricultural enterprises. In 1974, the largest 10 percent of dairy farms in the U.S. produced only 38.2 percent of total output; the smallest 10 percent produced 0.8 percent of total output (poultry at the other end of the scale was 96.2 percent and 0.2 percent).

Demand

The market or demand issue must also be considered. When we look at the market for U.S. milk production, we have to confine ourselves almost exclusively to the domestic market. Exports of dairy products are very limited (generally less than 2 percent of our production) and show little potential due to relatively high domestic prices, GATT policies that protect market shares of other exporting countries, and limited total international dairy trade.

The market for milk, aggregate demand, therefore becames a function almost exclusively of two factors: population growth and per capita consumption in the United States.

Population -- Since the mid-1970s, population growth in the United States has averaged almost exactly on 1 percent per year.[2] We currently stand at 237.0 million people, with an addition of slightly over 2 million in population each year.

Per Capita Consumption -- Per capita consumption of milk and dairy products has been almost a constant in the past fifteen years. Note the data recorded in Table 2.

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[2] Statistical Abstract of the United States - 1984, 104th edition, U.S. Dept. of Commerce, p. 6.

Table 2. Per Capita Consumption of Dairy Products, U.S., 1970-1983

Year	Per Capita Consumption Commercial Sources	 All Sources*
1970	511 Lbs. Milk Equivalent	561 Lbs. Milk Equivalent
1980	509	544
1983	517	578

*All sources includes milk consumed on farms and USDA donations.

Source: Dairy Situation, ERS-USDA, September, 1984, p. 18.

An increase in per capita consumption from commercial sources occurred in 1984 (probably to about 526 pounds), but the data have not yet been reported. But the point is that we appear to be in an extended period of stable overall per capita consumption of dairy products. The national generic promotion effort (15 cent per cwt. assessment) now underway is accomplishing some positive things, but as a long run activity, its key achievements may be greater in terms of preventing erosion of per capita consumption as compared to making any significant increase in per capita consumption.

We should continue to increase the aggregate commercial demand for milk by about one percent per year based on population growth. That is a challenge in itself because it assumes that per capita consumption of dairy products will not be adversely affected by substitutes or negative nutrition attacks. Increases in aggregate commercial demand beyond 1 percent per year (which is about 1¼ billion pounds more milk demanded each year) will require increases in per capita consumption -- not easily accomplished.

Dairy Policy Questions -- The comments I would advance on dairy policy are limited to dairy price support. We have had an on-going price support program for milk since it was authorized by the Agricultural Act of 1949. For the most part, it has been a good thing. It has lent price stability to the dairy industry even while it permitted the resource adjustment, restructuring, and efficiency gains noted earlier. Furthermore, except for the soon to end diversion program, it has accomplished these purposes with minimal involvement of the government in producer decision-making. Unfortunately, in the 1979-1983 period, support prices stood at high levels that, in the absence of production controls, generated costly surpluses. That is why we are now looking at overhauling dairy price supports.

I have three major questions on dairy price support that I would raise and then offer some quick and subjective answers.

1. Should we continue to have a dairy price support program, better stated as what should be the OBJECTIVE of the price support program?

We hear a lot of fat words on objectives. On the one side, we hear parity or family farm or adequate supply or price enhancement or price stability. On the other side we hear market oriented or safety net or ease adjustment or price stability or encourage demand. While we probably all would like to see all of these objectives achieved, several are in direct conflict with one another. So we have to make a choice. The choice is further defined by recognizing that any price support program that carries price enhancement will necessarily mean production controls (base plans) at the farm while a market oriented support price avoids the need for production controls.

In most years in the 1950 through 1977 period, the dairy support price basically reflected a market oriented level, evidence being that we did not generate chronic surpluses. Recently, I participated in a group effort with other agricultural economists that recommended a market oriented support price. The market oriented support price should be a "safety net"; furthermore a safety net price, as we defined it, is "a long run price which over the course of 10 years or more should average below the long-run market clearing price by 5 to 10 percent. While the support price would be influenced by market conditions, it would always be there as an assurance to producers that market disaster was not in the offing.

In my view, the safety net as defined is a reasonable objective for dairy price support. But I also recognize that as we look ahead to the dramatic changes in milk production technology, a safety net support price could mean more rapid adjustments in the dairy sector than we are willing to accept. The toughest question to answer in dairy price support is -- "What should be the objective?"

2. The second question concerns what concept should we use to regularly adjust the support price? For example, at the start of a new marketing year or each October 1, what measure do we look to in order to come up with the new support price? Parity has been the historic measure, but virtually everyone is agreed that parity is no longer a credible standard. Alternatives include (1) cost pricing (either a dairy specific parity index or a cost of milk production index), (2) a market standard (supply-demand adjuster mechanism), (3) legislation (the way our current $12.60 support price was established), or (4) an annual national public hearing.

In my view, a combination of a cost pricing mover (index) and a supply-demand adjuster mechanism makes the most sense. The cost pricing mover could either be a carefully reviewed dairy parity index or an annual cost of production study along the lines of those issued by the U.S. Department of Agriculture. However, no automatic price mover ever has been or ever will be perfect. Market conditions cannot be ignored in the price support decision. Therefore, a supply-demand adjuster can be an effective means of adjusting the cost price and finally announce a more realistic support price.

An example of a supply-demand adjustment schedule some of us have recently advanced would adjust the preliminary support price on the basis of anticipated CCC purchases of dairy product.

Estimated CCC Purchases In New Marketing Year	Supply-Demand Adjustment to Preliminary Support Price
Less than 1 Bil. Lbs. m.e.	+ 4 Pct.
1 - 2	+ 2
2 - 4	0
4 - 5	- 3
5 - 6	- 5
More than 6 Bil. Lbs. m.e.	- 8 Pct.

The concepts I have outlined here are workable. They can give us consistent, relevant, and acceptable support prices. In some recent material, I summarized the role of a supply-demand adjuster as follows:

"Implementation of a supply-demand adjuster would fine-tune the way that things have been done. It is intended to help prices more closely reflect market conditions and to avoid the surplus milk or price instability problems generated when support prices are allowed to become far out of synch with the market.

"To the extent that supply and demand conditions must be recognized in establishing the support price, the adjuster mechanism provides an objective and effective means of making such adjustments. In the absence of production controls, some formal or informal type of a supply-demand adjuster to the support price is essential."[3]

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[3] Jacobson, Robert E., Dairy Policy Options For 1985, "Supply-Demand Adjuster Pricing," ESS 613, Ohio State University, Feb., 1985.

3. What kind of a program should we use to implement the dairy support program? The alternatives that I believe are most relevant at this juncture are outlined as follows:

A. CCC PURCHASES -- with market oriented support price; no supply management.

B. CCC PURCHASES -- with enhanced support price
   1. Voluntary supply management, with economic incentives to participate.
   2. Mandatory supply management, with economic penalties for exceeding production

C. TARGET PRICE / DEFICIENCY PAYMENTS
   1. Low target price without supply management
   2. High target price with voluntary or mandatory supply management.

Any one of the five listed alternatives is workable. Clearly they have different objectives -- market orientation versus price enhancement. That is why it is so essential that the objectives question be answered early on. Historically, we have found ourselves using Alternative A exclusively. Instigation of the 15 month diversion program on January 1, 1984 found us resorting to Alternative B-1. What next?

To contrast CCC purchases with target prices/deficiency payments, let me offer some pros and cons on the two programs assuming a market oriented support level for both.

A. CCC Purchases

1. Arguments For --

    a. Minimum government involvement with producers.

    b. Makes necessary product available for school lunch, etc.

    c. Reasonable program costs unless support price gets too high.

    d. Proven history of performance, especially price stability.

2. Arguments Against --

    a. Places burden of price support for all milk on three products -- butter, cheese, and nonfat dry milk.

    b. Makes it too easy to sell to CCC as compared to having to seek markets.

    c. Extends price benefits to producers on a cwt. basis; therefore larger volume producers get more benefit.

B. Target Prices/Deficiency Payments

1. Arguments For --
    - a. Establishes market clearing prices for all dairy products; strong demand emphasis.
    - b. Would increase pressures on industry to promote merchandise and market dairy dairy products.
    - c. Would support producer income directly rather than use product prices to support income.
    - d. Could be more directly geared to extending income benefits on a need basis as compared to a volume basis.
2. Arguments Against --
    - a. Has potential for being a costly program unless tightly specified.
    - b. Would be disruptive for some time to the manufactured dairy products industry.
    - c. Has been used in other commodity programs and not resolved the problem.

I am sure there are other arguments for and against these alternative approaches to dairy support -- price support in the instance of CCC purchases and income support in the instance of deficiency payments. My inclination would be to stay with CCC purchases if a market oriented support price is adopted as an objective. If price enhancement is the price support objective, then deficiency payments (with supply management) make more sense because we must keep dairy products competitive in the market place in the long run.

Short Term Projections

We only need to look about 5 years down the road to have our concerns deepened about what we want our milk industry to look like. Let me offer the following projections on demand, supply, and structure to the year 1990 to challenge the issue.

1. Demand -- As noted previously, aggregate commercial demand is a function of population and per capita consumption. Assuming that we maintain our 1 percent annual population growth through 1990, we will attain a population in that year of 250.5 million.

Assuming a per capita consumption level of 525 pounds in the commercial market, the total demand for milk in the U.S. will be 131.5 billion pounds in 1990. As an option, a 550 pound per capita consumption level would mean a demand of 137.8 billion pounds.

2. Supply -- In order to predict future milk supply, the normal process is to estimate demand and assume that in the long run, supply will equal demand.

Production per cow in the U.S. in 1985 averaged 12,500 pounds. A 300 pound increment each year (or an increase of slightly over 2 percent) reflects a relatively cautious projection, and would place us at 14,300 pounds per cow in 1990. (California is already at the 15,799 pound level in 1984.)

In 1990, a national dairy herd averaging 14,300 pounds per cow would need only 9.2 million milk cows to supply a 131.5 billion pound commercial demand. Our national dairy herd today numbers 10.8 million milk cows. The necessary reduction of 1.6 million milk cows to balance the market suggests a needed 15 percent reduction in our national dairy herd in the next 5 years.

The more optimistic consumption level of 550 pounds per capita (137.8 billion pounds aggregate demand) would still mean that the national dairy herd must drop to 9.6 million milk cows by 1990.

(In these calculations, it is recognized that dairy farmers keep back slightly over 2 billion pounds of milk each year on their farms. However, the 2 billion pounds of milk produced that is not marketed is just about offset by the 2 billion pounds of milk imported each year. Therefore, the numbers used in these calculations reflect a realistic supply-demand balance to the extent that the assumptions are good).

3. Structure -- An estimate was advanced earlier that we now have 171,000 commercial dairy farms in the United States. If our entire dairy herd was totally located on these 171,000 farms, we would have an average herd size of 63 cows in the U.S. today

(10.8 million cows divided by 171,000 farms). On the basis of recent trends, it is reasonable to assume that an average herd size of 85 cows will prevail in 1990. In that case --

(1) 108,000 farms x 85 cows (14,300 lbs.) = 9.2 Mil. Cows
or (higher consumption level)
(2) 113,000 farms x 85 cows (14,300 lbs.) = 9.6 Mil. Cows

Regardless, any adjustment from 171,000 commercial dairy farms today down towards the 100,000 dairy farm level in a short five year time period suggests a major restructuring by any measure. Over the long run, as the impacts of bovine growth hormone, embryo transplants, and other bio-tech gains in milk production occur, further concentration is a certainty.

The technology driven push, that continues to move supply faster than demand, will bring on much greater pressure for supply control from the producer sector. That is why it becomes more important now that we try as best we can to decide on what should be the objective of dairy price policy. Some insulation from the rate of restructuring suggested here can be achieved through supply management plans. The choices may be clear, but that does not make it easier to choose.

Andrew M. Novakovic
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Exhibit 1

NEW YORK STATE AGRICULTURE 2000 PROJECT

ECONOMIC OPPORTUNITIES
FOR THE DAIRY INDUSTRY*

Robert D. Boynton, Andrew M. Novakovic and Richard D. Aplin

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* Page 1-20 of original report

ECONOMIC OPPORTUNITIES FOR THE DAIRY INDUSTRY

Robert D. Boynton, Andrew M. Novakovic, and Richard D. Aplin[1]

This is a report on the forces of change we see affecting New York's dairy industry in the balance of this century and some possible responses of government, industry, and educational institutions to the challenges posed by these changes. This is not a research report but rather an attempt to look into the future and forsee changes and challenges based on our knowledge of dairy industry conditions and trends. We are less concerned with recommendations for what should happen than we are with trying to predict what may happen.

BACKGROUND AND CURRENT STATUS

Importance of the Dairy Industry

The dairy industry plays a central role in the state's agricultural and total economy. Cash receipts from farm marketings of milk totalled $1.574 billion in 1983, representing about 58% of cash receipts from the marketing of all farm products in New York State. The dairy farming sector, of course, has an impact throughout the marketing and distribution system; milk transporters, processors, manufacturers, distributors, and retailers create jobs and add value to milk and dairy products as these products move to consumers. For example, the milk and dairy product processing industry in New York employs over 12,000 people, about 13% of all those employed by New York food processing firms. The value added to milk and dairy products beyond the farm gate is about $900 million. As one of the largest economic sectors in the state, the dairy industry also makes a major contribution to the general economy of New York and is critically important to the vitality of rural communities and agriculturally-related industries.

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[1] The authors are Associate, Assistant and Full Professor, respectively, in the Department of Agricultural Economics, Cornell University, Ithaca, New York. The authors gratefully acknowledge the contributions of Dan Whitaker, Dr. Edward Johnston, and David J. Bucciferro in assembling the data used in this paper. Helpful reviews and comments by Olan Forker, David Galton, Frank Kosikowski, Eddy LaDue, David Lee, Walter Wasserman, and Robert Zall served to improve this paper.

New York's dairy industry enjoys national stature as well. New York dairy farmers produce over 8% of the nation's milk supply, ranking the state third in milk production in the U.S. behind Wisconsin and California. The state's share of U.S. production has been quite stable over the past 25 years, ranging between eight and nine percent of the national total. New York had 8.5% of the nation's milk cows in 1983 compared to 7.1% in 1960. In 1983, New York plants produced about 4% of the nation's butter, placing the state seventh in butter production nationally. New York ranked fourth in cheddar cheese production, second in Italian cheese production, first in creamed cottage cheese, second in lowfat cottage cheese manufacture, and first in cream cheese production. The state produces 5.5% of the U.S.'s nonfat dry milk for human consumption (#6 in rank) and almost 6% of the nation's ice cream (#4 in rank).

The Changing Structure of the Farm Sector

Dairy farm numbers continue to decline in New York at about the same rate as in the rest of the country. In 1970 there were 23,085 dairy farms marketing milk commercially in the state; by 1983 there were only 15,316 dairy farms, a decline of 34%. Nationally, the downward trend was slightly sharper. Milk cow numbers fell 25% in New York from 1960 to 1983 compared to a 37% drop in the U.S. Since 1960, New York has given up ground to the rest of the country in output per cow. New York held about a 1,100 pound per cow advantage over the

U.S. average in 1960 but by 1983 the state average was 12,437 pounds of milk per cow compared to the U.S. average of 12,587. One can hypothesize that the factors responsible for this turnaround are related to the increase in the share of U.S. production achieved by states with especially high production per cow (California, other Western states, and states in the South) relative to New York. Feeding programs, management intensity, genetic progress, and environmental conditions have all favored high production per cow in these states relative to New York.

While New York dairy farms are not among the largest in the U.S., their size continues to increase. Of the 18,000 farms reporting milk cows in 1983 (includes farms not selling milk commercially), 18% had fewer than 10 milk cows, 13% had 10-29 cows, 28% had 30-49 cows, 32% of the farms had 50-99 head, and 9% had 100 or more cows. That herd sizes are increasing in the state is demonstrated by the fact that in 1978 only 6.5% of the farms had 100 or more cows. Although only 9% of the state's herds were composed of 100 or more cows in 1983, these herds represented 27% of all the cows in the state, while those herds with less than 30 cows contained only 7% of the state's dairy cows.

Indicative of New York's predominant role as a leading milk producer in the Northeast, more of the state's milk is shipped to out-of-state plants today than in years past. From 1961 to 1982, the volume of milk shipped to New England plants rose 130%, to 1.2 billion pounds annually. Total out-of-state shipments rose 115% from 1961 to 1982, to 1.5 billion pounds.

The Changing Structure of the Manufacturing and Processing Sectors

The most dramatic and significant change which has occurred in the state's processing and manufacturing sectors over the past 25 years is the increase in milk used in manufactured dairy products, especially cheese. This change was occurring across the country but was somewhat intensified in New York. Milk used for all manufacturing purposes (net) increased 50% in New York from 1960 to 1982 and 36% nationally. Milk utilized in all cheeses rose 167% in New York and 192% in the U.S. Milk used in the manufacture of American cheese rose 93% in New York over this period, but 185% in the U.S. Milk use in all other cheeses in the state increased 228% compared to the national rate of 209% over this 23-year period; Italian cheeses were the big growth product in New York.

There are 181 milk and dairy product plants in New York in 1984--96 fluid product processing plants, 70 manufacturing plants, and 15 transfer stations (formerly called country receiving stations). Compared to 1960, processing plants have declined 86%, manufacturing plants are down 53%, and transfer stations are down 93%.

Fluid Milk. Since 1969, total fluid sales (excluding cream) in New York have fallen by 973 million pounds (20%) while they have risen about 1% nationwide. Changes in New York's total population relative to the rest of the U.S. as well as changes in the demographic profile of the state's consumers as a result of out-migration, especially in the New York Metropolitan Area, likely played a major role in declining fluid sales in the state. In addition, the low consumer acceptance of lowfat milk here may have contributed to declining fluid sales as some consumers sought to reduce their intake of whole milk but did not find lowfat milk to be an acceptable alternative. Fluid sales are showing new strength in 1984. Through the first eight months of 1984, producer milk used in Class I is up 1.2% across all federal orders and in the New York-New Jersey order. Class I use is down 0.1% in the New England order and up 0.7% in the Middle Atlantic order in the January-August 1984 period.

Fluid use represented 31% of total utilization at New York plants in 1983, highlighting the large role played by all manufactured products in the state.

In 1983, New York's fluid milk sales were divided as follows: whole milk, 71%; lowfat, 22%; skim milk, 3%; buttermilk, flavored milks, etc., 4%. National percentages (based on federal order data) in 1983 were 54%, 36%, 5%, and 5% for whole, lowfat, skim and other fluid milks, respectively. Sales of whole milk relative to lowfat milk are higher in the Northeast than in any other region of the U.S.

Whole milk sales in the state fell almost 37% between 1969 and 1982, compared to a 28% decline nationwide. Lowfat sales increased almost fourfold in the state compared to a 223% gain nationally. Skim sales rose a modest 12% in New York and 9% nationwide between 1969 and 1982. Other fluid milk sales rose 23% in the state, almost three times faster than in the U.S.

Butter. In 1983, New York produced 50 million pounds of butter (3.9% of the U.S. total) in 21 plants. Butter production followed no single trend during the past 24 years but has increased dramatically since 1979 as a market balancing product in the face of rapid increases in production over the past five years. Plant numbers fell 60% in the state since 1960 compared to a national drop of 87%. Average plant size has changed, of course, rising over 200% in New York and 600% nationally. The average state plant manufactured 2.4 million pounds of butter in 1983 compared to a national average of 5.9 million pounds.

Nonfat dry milk (human use). Only 11 plants were manufacturing nonfat dry milk in New York in 1983. They produced 82.8 million pounds of product, up from 1982 but down dramatically from the production levels of the early 1960s. New York accounted for 5.5% of total U.S. production in 1983 compared to 8.7% in 1960.

Cottage cheese. New York led the nation in the production of creamed cottage cheese in 1983, accounting for almost 14% of national production. Fifteen plants produced creamed cottage cheese in 1983, down from 72 plants in 1960.

From 1960 to 1983, New York's creamed cottage cheese production rose 15% compared to a 4% decline nationally. The size of New York plants producing creamed cottage cheese was about double that of the national average--about 6.7 million pounds annually per plant in the state in 1983.

New York ranked second in the nation in the production of lowfat cottage cheese in 1983, producing 19% of the country's total in nine plants. Lowfat cottage cheese production increased dramatically in the 1970s; New York's output increased fivefold while U.S. production rose almost fourfold in the period 1970-1983. The average annual output of a New York plant producing lowfat cottage cheese was about 4.5 million pounds in 1983, over three times higher than the national average.

Other cheeses. In 1983, 79 million pounds of cheddar cheese were produced in New York, 213 million pounds of Italian cheese, 80 million pounds of cream cheese, and 26 million pounds of miscellaneous cheeses. These production levels represented the following shares of U.S. production in 1983; cheddar cheese, 3.3%; Italian cheese, 17.8%; cream cheese, 30.2%; and miscellaneous cheese, 2.6%. From 1960 to 1983, U.S. cheddar cheese production increased 163% while New York's output grew 105%. Italian cheese output grew slightly more rapidly in the state than nationally--717% since 1960 compared to 662% growth nationwide. In 1983, 13 plants in the state manufactured cheddar cheese, a 57% decline since 1960--almost exactly equal to the national rate of decline. The annual output of New York's cheddar cheese plants averaged just over 6 million pounds, almost exactly the same as the national average.

Fifteen plants made mozzarella cheese in New York in 1983, down from 20 plants in 1974. The average New York mozzarella plant turns out about 9.2 million pounds of cheese annually, about 50% more than the national average.

Twenty-four plants produced Italian cheeses of all types in New York in 1983, down from 37 plants in 1960.

Frozen desserts. New York ranked fifth nationally in the production of frozen desserts in 1983, behind California, Pennsylvania, Texas, and Ohio. The state produced 4.9% of the nation's frozen desserts in 1983. Eighty-two percent of the state's 1983 frozen dessert production was ice cream, with ice milk making up most of the balance. In 1983, New York produced 5.7% of the country's ice cream, down from a 10.5% share in 1960. During this same period, New York's share of the national ice milk market rose from less than 1% to 2.6% in 1983.

New York's Production-Consumption Balance

The state's cheese production matches local demand well in the aggregate. When individual types of cheeses are examined, however, the picture changes dramatically. New York produces less American cheese than it consumes by a considerable margin, implying of course, that the state is a net importer of American-type cheeses. Based on national per capita consumption levels, it is estimated that only 39% of state demand was satisfied by local production in 1982. Of course, since much of New York's cheddar is sold out-of-state, even more cheddar cheese was imported into New York to satisfy local needs than is implied by this 39% figure. It would appear that there exists considerable potential for the expansion of New York-produced American cheese sales within the state.

Italian and cottage cheeses are quite another story. For both those cheese types, New York is a net exporter, producing more than twice as much of these cheeses than is consumed in the state (again based on U.S. per capita consumption figures). In the past few years, the state has placed heavy emphasis on the Italian cheese industry, especially mozzarella cheese. This has been to the state's advantage because this production has moved readily into commercial channels. There is a potential cloud on the horizon in the form of imitation cheese. Imitation cheese's share of the total U.S. market was estimated to have reached 5 to 6% in 1983, following a steady rise over the past six years. The vast majority of imitation cheese directly displaces real mozzarella cheese sales. This is a trend which the state's cheese industry should watch carefully.

In general, packaged fluid milk is made from n[illegible]y sources of raw milk and is distributed locally. Much of the raw milk produced in New York State which is sold to New York fluid milk processors is destined for the New York Metropolitan Area. Similarly, most of the packaged milk sold in that large metropolitan market comes from New York raw milk. Exact figures on the sources of packaged milk sold in the state are not readily available, but in 1982, 72% of the raw milk sold under the New York-New Jersey federal order originated in New York; Pennsylvania farmers provided most of the remainder. In addition, there is very little interstate trade in packaged milk. Packaged milk sales by New York processors to out-of-state retailers or dealers is virtually equal to the sales of out-of-state processors to New York dealers and retailers, both amounting to about 3% of total sales. This low volume of interstate trade in packaged milk is in part due to restrictions on market entry created by state regulations in the Northeast (e.g., milk dealer licensing and health inspection practices).

Although New York is a leading producer of ice cream and frozen desserts, it would appear that New York is a substantial net importer of frozen desserts. Exact figures on in-state consumption are not readily available, but national per capita consumption figures suggest that New York may consume 50% more frozen desserts than it produces. Pennsylvania produces a significant portion of the frozen desserts sold in New York.

Butter and nonfat dry milk are major manufactured products in New York State; however, a fairly large percentage of these products are not produced for commercial markets. Processors of these products in New York have traditionally served primarily a seasonal balancing function. In recent years, they have also been the repository of the growing surpluses of milk. In fiscal year 1982-1983 (October through September) almost 82% of the butter produced in New York and 79% of the nonfat dry milk (for human use) was sold to the Commodity Credit Corporation (CCC) under the price support program. This compares to less than 3% for American cheese.[2] During this fiscal year, New York ranked third in butter sales to the CCC and fifth in nonfat dry milk sales (and eighteenth for cheese). These figures are clearly larger than in years when national supplies were in better balance with demand, but even then New York has sold a relatively large share of its butter and nonfat dry milk to the CCC. In fiscal year 1978-1979, when surpluses were not a problem nationally, 16% of New York's butter and 14% of its nonfat dry milk were sold to the CCC; New York sales of butter and nonfat dry milk to the CCC earned it a fourth and seventh place ranking, respectively, among states in the 1978-79 year.

FORCES OF CHANGE

The dairy industry nationally and in the Northeast is going through a period that in some respects is the most trying since the 1930s. At the same time, however, this period offers the most exciting challenges and opportunities since the early 1900s. Partly from the impetus of policy-related factors and partly due to other economic forces and technological advances, the orientation of the dairy sector is slowly moving away from relying upon government regulation and support to aggressively developing and expanding commercial markets for dairy products. A gradual shift is taking place from economic regulation towards economic development.

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[2] These shares could be slightly inflated because USDA reports sales based on plant location and some New York plants may receive product from out-of-state. It is also true that some products manufactured in New York are made from milk produced in other states.

We suggest the following as the major factors that will shape the dairy sector through 2000:

(1) the increasing importance of consumer preferences for dairy products;

(2) the rapid growth and absorption of a wide range of technological innovations;

(3) changes in the objectives and tools of dairy policy at national and state levels.

Changes in Preferences

Consumers increasingly want food that is healthful and convenient. They also want a degree of luxury in their diet. These concerns, along with demographic changes, are important forces of change in the dairy industry.

In the main, the growing consumer health consciousness and its relationship to diet have worked to the detriment of dairy product consumption. Although per capita consumption of lowfat products has increased, the decline in per capita consumption of traditional, whole milk or full-fat products has been greater. Nevertheless, we expect the negative effects of health and diet factors to lessen in the next 16 years. The worst is likely over. It is even possible that better times may be ahead. People will continue to discriminate against saturated animal fats in their diet. The cholesterol/arteriosclerosis debate will likely continue to ebb and flow and generally inhibit the consumption of high-fat dairy products, but this will likely occur to no greater extent than in the recent past.

On the plus side, recent medical findings indicate that present recommended daily requirements for calcium are too low to guarantee adequate bone health in older Americans, especially post-menopausal women. Potentially even more important, but less firm at this time, is a linkage between increased calcium intake and reduced hypertension. Particularly if the latter can be established, this could substantially increase lowfat dairy product sales.

Perhaps the most significant trend in food consumption has been the explosion of convenience foods and away-from-home food consumption, especially in fast food restaurants. Although there is no particularly compelling reason for it, dairy product sales as a whole do not appear to have benefitted from this growth. Until the dairy industry aggressively addresses this segment of its market, dairy sales to this market segment will continue to deteriorate.

Of late, consumers have shown considerable interest in foods that offer a hint of luxury, even when they are priced well above their more common counterpart. This has been particularly true for super premium frozen desserts and chocolate milk but is also evidenced in the sales of fancy yogurt and European-style cheeses. Although the total volume is low, sales of these products will grow.

By 2000, the population will become steadily older, more concentrated in urban and suburban areas, and will be relatively more non-white. This means more people will be in groups that have a lower demand for milk and dairy products. Thus, these factors will tend to reduce per capita consumption, although they may be mitigated somewhat by positive factors on the health side, e.g., increasing the calcium intake of middle-aged and older adults.

These demographic trends are probably stronger in the Northeast than elsewhere in the U.S. Moreover, the Northeast may experience no significant population growth through 2000. Because of these factors, it will be very difficult to increase total dairy product sales in the Northeast.

Technological Change

Perhaps in no other area of the dairy industry is the prospect for dramatic change more likely and the potential more far-reaching than in the area of on-farm productivity. Embryo transfer, computer-based technologies to monitor feeding and otherwise improve herd and farm management, and a host of other technologies are available or near at hand. Perhaps the most dramatic example of these new technologies is the progress being made at Cornell and elsewhere on the physiological regulation of milk production via the administration of synthetically-produced bovine growth hormone. This emerging new technology, made commercially possible by recombinant DNA technology, has yielded increases in production per cow of 15% to 25% in a recent Cornell University trial.[3] Of course, production increases of the magnitudes reported in research trials are not likely to be widely achieved in normal commercial application since the experimental results were achieved under an optimal feeding regimen.

While approval of the injection or implantation of bovine growth hormone still awaits Food and Drug Administration action, parties close to the situation believe that such approval may come as early as 1987. Preliminary Cornell analyses suggest that the administration of this hormone is likely to be

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[3] Growth hormone was administered beginning at about peak lactation (84 days ±10). For the remainder of the lactation, the gains in production over three dosage levels ranged from 23% to 41%. The numbers reported here represent this range averaged over the total lactation period.

economically attractive to dairy farmers even if milk prices were to drop substantially or the hormone were monopolistically priced. Factors contributing to the technology's likely rapid adoption are its dramatic and rapid results and the ability to satisfy a large segment of the market from one moderately-sized plant. Barring efforts to control or reduce its use, this technology is expected to have a tremendous impact on the dairy industry before the end of the century.

All indications point to an increase in herd size throughout the balance of this century as well as the need for substantially fewer cows and less milk than is currently being produced. The implication is that dairy farms will continue to become fewer in number and larger in size, and the effects of bovine growth hormone could greatly accentuate these changes. Although farm uses of bovine growth hormone and many other biotechnology-related innovations are not capital intensive, we believe they will be more rapidly and successfully adopted on larger farms where, in general, management skills are better and more attuned to potential new technologies. Of course, the flexibility of the federal price support program will be severely tested as these production-increasing technologies are adopted.

We would expect to see modest increases in dairy farm specialization in New York by 2000, although it will be nothing like that which currently exists in California or much of the South. The abundance of our land resource and the dearth of alternative uses for it will continue to give the state a diversified set of dairy farm enterprises; crop production will continue to be as important to the dairy farmer as dairy husbandry. By 2000, we would expect to see less variation in average production per cow across dairy farms as farms decrease in number and increase in efficiency. The normal trend in herd size increases would suggest that the average New York herd would contain about 105 cows by

2000. We feel that technology and the associated contraction in cow numbers and farmers could push the average herd size in New York to 120 by 2000.

Ultrafiltration and reverse osmosis (UF/RO) technologies make separation of skim milk components almost as simple as separating cream from whole milk. UF selectively concentrates milk by removing water and selected solids. RO simply concentrates milk by removing water. Thermalization is a process of heating milk shortly after it comes from the cow to a temperature somewhat below that required with current pasteurization techniques. This on-farm, pre-pasteurization process extends the on-farm storage life of properly cooled milk to almost a week and enhances the cheese yield of treated milk.

The use of UF/RO in manufacturing plants has already begun, where the principal application has been to condense whey and separate its marketable components. Because of the modified composition of the retentate, UF technology offers advantages in cheese manufacturing (yield increases) not available from RO. UF/RO technologies would appear to offer limited benefits to fluid milk plants unless reconstituted milk became a significant share of the market. The on-farm application of UF/RO and thermalization is still in an experimental stage, but they could bring substantial change to milk production and marketing processes. The principal benefits of on-farm use are an increase in efficiency of storage and milk assembly and a concomitant decrease in marketing costs. As noted, heat-treated milk can be stored longer at the farm. Milk can be selectively concentrated by UF at the farm, thereby reducing storage capacity requirements and cutting the high cost of transporting a heavy, fluid product that is almost 90% water in its natural state. Either UF/RO or thermalization technologies could significantly reduce assembly costs. Together they suggest once-a-week pick-up of a condensed product with perhaps one-third its original weight and volume.

Adoption of these UF/RO and thermalization technologies on farms will be retarded by two principal factors: their relatively high fixed cost and the special care necessary to ensure their sanitary operation on a continuing basis. The cost factor would appear to require dairy farms significantly larger than the average New York farm. Consequently, adoption of UF/RO and thermalization will probably proceed at a faster rate in the West and South than in other regions. By 2000, however, adoption may have begun to a limited extent among the larger dairy farms in New York. In fact, it is possible that these technologies will hasten the increase in farm size. An important footnote to this is that these technologies will require a different pricing system and will add further stimulus to the adoption of a multiple component pricing system.

Aseptic or sterile fluid milk products processed through ultra-high temperature pasteurization (UHT) and sterile filling have received considerable attention lately. Although UHT milk is likely to find a comfortable niche in the market, its market potential will fall far short of many earlier predictions.

Government Price and Marketing Policies

Although the fervor for deregulation and less government will vary with different political administrations, the trend for reducing government intervention in the dairy industry will likely continue. This is not to say that federal price and marketing regulations are likely to be terminated or will become insignificant, but their impacts will lessen.

Interest will continue in changing the methods and procedures used to implement federal dairy policy in the general direction of placing more reliance on natural market forces. Some of these proposed changes would fine tune current programs and not have major impacts; others could fundamentally change the way government regulates the marketing and pricing of milk. While there appears to be a growing sentiment to try something different, it is not likely that sweeping changes in price support or federal order policies will take place in 1985, when the next quadrennial review and change of agricultural policy is scheduled to occur. Whether dairy policy will be changed substantially in 1989, 1993, or 1997 will depend on a host of factors, among the most important of which will be recent program costs and the preferences of consumer representatives. Although the interests of dairy farmer groups will continue to be important, they will no longer dominate the policy-making process.

Price support program. The dairy price support program embodied in 1985 legislation will reflect to one degree or another the rejuvenated market orientation of the dairy industry as well as the realities of federal budget pressures. Although the exact outcome is uncertain, the new bill is not likely to be radically different than its predecessors, although it may have a few new features. This new legislation will likely represent a return to the "safety net" philosophy that guided that program throughout most of the 1960s and 1970s--price and income stabilization with limited federal budget exposure. The new price support program may be operated with a revised parity-type or cost of production-based formula, increased flexibility to deviate from the prescribed "formula price", and supply-demand triggers, all intended to minimize the amount of product the government buys in a long-run context consistent with a price stabilization objective. A provision for producer funding of part of the cost of the price support program could be incorporated into the 1985 legislation; it might be designed to come into play only when government costs are above a preset level.

A more sweeping alternative that will be discussed and could come to the fore under a liberal administration would be to combine some kind of income subsidy for low income and/or small farms with lower price supports for larger farms. Other alternatives that have been discussed, such as strict quota plans, regionally discriminating support levels, or eliminating supports altogether are not likely to be adopted.

Federal milk marketing orders. Federal orders have been in the political backwaters while price supports have been in the main channel. This is likely to change when burdensome milk surpluses are no longer an issue; it may change in any event. The primary rallying point for federal order critics will probably be reconstituted milk, but the issue will actually be geographic price differences that are encouraged by the structure of federal order Class I prices.

Attempts will be made to lower all Class I prices by some constant amount (in the vicinity of 50 cents per hundredweight) and to reduce price differences across regions. The latter could be fashioned in many ways. Currently Class I prices are calculated to increase with distance from Eau Claire (west central), Wisconsin, reflecting bulk milk transportation costs from that region of excess supply (although these differentials are no longer adequate to cover the costs of bulk milk transport). Two suggestions for modifications in the differentials have been prominent. One would increase the number of base pricing points from one--in Eau Claire--to two or more, including at a minimum a base point in upstate New York. The second suggestion would change the implicit transportation differentials to more accurately reflect transportation costs from the base point(s). Some people would increase them to reflect actual hauling costs for bulk milk; others would lower the differentials to reflect the cost of shipping dried milk components suitable for reconstitution. The latter seems more likely at this point, although it is not inevitable that any such changes will be made.

Establishing a New York base pricing point would make New York Class I prices approximately equal to Class I prices in Wisconsin. According to the recent U.S. Department of Agriculture study on federal dairy programs, a New York basing point plus a lower base price would imply a reduction in Class I prices in New York of about $1.75 per hundredweight and about a $0.90 drop in blend prices after expected supply and demand adjustments.

State regulation. State regulation of milk markets in the Northeast are expected to be relaxed by the year 2000. Many states in the region enforce licensing, health inspection, and other regulations which form barriers to the movement of milk and dairy products among states in the Northeast. In addition, the existence of several federal and state milk marketing orders in the region adds to the fragmentation of the northeast market. We expect such state and federal regulations to be modified to permit greater interstate competition and in the process, foster a gradual movement toward a single northeast market for milk production and consumption over the next 16 years.

While we feel that this will be a regional, if not a national trend, we will briefly focus on New York State as an example of what we expect to happen by the year 2000. New York State marketing orders and milk dealer licensing are firmly in place at this writing, but licensing is the subject of some interest and review. The state orders in western New York will likely remain undisturbed until cooperatives in that area merge with one of the large northeast regional dairy cooperatives that will dominate farm level dairy markets by 2000.

Given the general trend toward deregulation and the increased interest in New York's licensing law by those in and out of the state, it is our expectation that this statute may be modified to relax existing restrictions by the year 2000. It seems most likely that the state's licensing law will be revised to make licenses easier and faster to obtain as well as applicable over a broader geographical area. It also seems possible that regulations for the state's fair trade practice law will be promulgated to further ensure that wholesale and retail milk markets in the state are as competitive as possible while providing minimal safeguards against destructive competition as well as monopolistic abuses. Similar movements in the regulations in other northeastern states seem likely in the next several years.

Implications for the Dairy Industry

The implications of all these changes are hardly crystal clear, but they do seem to point rather consistently in certain directions.

Farm level. The question for farmers over the next 10 years is not "will times be financially tough" but rather "how tough will they be". Farm prices are not likely to increase over the next few years and could well decline. Indeed, prices could continue to decline through the early 1990s, depending on how bovine growth hormone is introduced. By 2000, dairy farms will be considerably larger and much fewer in number. The rate at which farmers retire or fail to survive financially will be quite high in the next five years. The biggest adjustments will occur on farms and in regions where costs are highest. The early adopters of bovine growth hormone and other technologies will enjoy a short-term windfall but by 2000, prices and costs will have adjusted so that net returns to dairying will be only slightly higher. By 2000, dairy farms will be even more divided between the small, often inefficient farms that have low costs (by virtue of having very little debt and very low expectations for returns to family labor) and much larger, well-managed, efficient farms. High-cost farms, whether small, large or in-between will suffer most, but the medium-sized, moderately efficient, moderately profitable farmers will find it harder and harder to cope with the changes that will take place.

Processing/manufacturing sectors. Processors will enjoy lower raw product costs and many opportunities to expand their markets. These opportunities will require a new attention to consumer needs and desires and the acceptance of some risk. Processors will also face declining output prices and unfavorable consumption trends. On net, there will be sizeable reductions in the number of processors and an increase in the average size of those who remain. The survivors will probably have somewhat higher returns in 2000 than they do today.

Hard product manufacturers will have to learn to operate in markets not dominated by the Commodity Credit Corporation. Creative marketing will be required to take advantage of new and expanded markets. Interregional competition will intensify as the Northeast, Midwest, and the West vie for commercial markets nationwide. These adjustments may be hardest on the mid-sized, independent manufacturer of hard products, especially cheese. Cooperative ownership and/or financing of manufactured product plants may increase in the Northeast and nationwide in the next 16 years.

GENERAL FARM BILL OF 1985

(Dairy Program)

WEDNESDAY, MARCH 27, 1985

House of Representatives,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 9:45 a.m., in room 1300, Longworth House Office Building, Hon. Tony Coelho (chairman of the subcommittee) presiding.

Present: Representatives Volkmer, Olin, Penny, Rose, Stenholm, Daschle, Jones of Tennessee, Bedell, English, Jeffords, Hopkins, Stangeland, Gunderson, Lewis, and Smith.

Also present: Representative E (Kika) de la Garza, chairman of the committee, and Representatives Gejdenson and Johnson.

Staff present: Robert T. Lowerre, associate counsel; Cristobal P. Aldrete, special counsel; John E. Hogan, minority counsel; Mark Dungan, minority associate counsel; Peggy L. Pecore and Eleanor Walsh, clerks; Bernard Brenner, Howard Conley, Kim Schnoor, Courtney C. Pastrick, Jeffrey Weiss, Stephen R. Kerr, and Carol Ann Dubard.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Coelho. The subcommittee will come to order.

We are meeting this morning to hear testimony from a broad cross section of interests about the impact of the current Dairy Diversion Program across the Nation.

Last week, the subcommittee heard from five regional economists who shared with us their thoughts about the current dairy programs, what that program has accomplished or failed to do, and what they project will occur as a result of the implementation of the diversion program.

After that hearing, several members of this subcommittee were intrigued with the testimony and with the general consensus among those economists about the needed direction for dairy policy. It is my hope that this hearing will provide the members of this subcommittee with even further insight about the dairy program, so that when we begin to formulate the dairy provisions in the 1985 farm bill we each will fully recognize the concerns of the various interests as well as the needs of our dairy farmers.

I appreciate the large number of witnesses willing to testify before our subcommittee about the impact of the Dairy Diversion

Program. It is my hope that not only will the subcommittee learn from the testimony on the diversion program but also that each of the witnesses will gain some insight and knowledge about the other witnesses' concerns.

I have previously stressed to the dairy industry that it is vital that they recognize each other's concerns about the program and specifically the concerns about each of the regions.

As you know, it wasn't until the dairy groups across the Nation decided that they must unite that a bill was finally passed during the 98th Congress. Even after the dairy industry united, they faced stiff opposition from a unique coalition which included the Cattlemen's Association, the American Farm Bureau Federation, the Ice Cream Manufacturers, and consumer organizations.

I am pleased to see that the majority of the dairy groups as well as members of that unique coalition are testifying today.

This year, not only will the entire dairy industry have to be united, but they will also have to negotiate and compete with other commodity and consumer groups in order to assure their needs are met in the 1985 farm bill.

The challenge we face calls for not only unity among our farmers but also for cooperation between Government, consumers, and agribusiness leaders if an effective long-term policy is to be developed and implemented in the 1985 farm bill.

The form that that bill eventually takes will have a significant impact on each and every one in this country. Considering that farmers account for only 2 percent of the total U.S. population, the voice of the needs of agriculture and our farmers could be overwhelmed unless agriculture interests are united.

The problem of increase in Federal outlays to subsidize farmers is especially significant in light of the massive Federal deficit. The dairy support program will be one of the first programs under scrutiny. And because of this scrutiny, it is important that we fully review what has occurred in the dairy industry and exactly why Congress has continued to amend the provisions of the dairy support program unlike other agriculture programs.

In the 1985 farm bill, we should strive to establish a set of congressional guidelines which can accommodate the needs that may arise in an unforeseen or emergency situation and thus eliminate the need for separate legislation to deal with many of the inevitable changes to come. This will avoid the change of paddles in midstream.

It is my hope that these hearings will provide us with the foundation in which dairy legislation can be based to assure that the needs of the dairy industry, of agriculture, of consumers, and of our Nation are met.

I would like to now welcome our first witness, the Deputy Under Secretary of Agriculture for International Affairs and Commodity Programs, Dick Goldberg. The administration witness has 10 minutes, and I will remind the other witnesses that you will be limited to 5 minutes, and members will be recognized for questions under the 5-minute rule and it will be strictly enforced. So, Dick, go ahead.

STATEMENT OF RICHARD GOLDBERG, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY CHARLES SHAW, COMMODITY ANALYSIS DIVISION, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE; JOEL BLUM, AGRICULTURAL MARKETING SERVICE; AND FLOYD GAIBLER, OFFICE OF ECONOMICS

Mr. **Goldberg**. Thank you, Mr. Chairman, and members of the subcommittee. I am very happy to be here and I will make an effort to stay within your timeframe, Mr. Chairman.

I have with me today, Mr. Chairman, members of the subcommittee, on my far right, Joel Blum, with the Agricultural Marketing Service; right next to me is Floyd Gaibler, with the Office of Economics; and to my left is Charles Shaw, with ASCS, Commodity Analysis Division.

I am going to paraphrase some of my remarks, Mr. Chairman, having to do with the diversion program and where we have been, and where are are today, and not go into proposed legislation as advanced by the administration, although it appears in my prepared remarks.

Mr. **Coelho**. Your prepared statement will be made a part of the record as is, and you may proceed.

Mr. **Goldberg**. Thank you.

Between 1981 and 1983, there were seven separate pieces of legislation enacted having to do with the Dairy Price Support Program. The most recent, of course, was the Dairy and Tobacco Adjustment Act of 1983, which will be concluded in a matter of days. That included the 15-month Dairy Diversion Program. This legislation was in response to the inability of prior legislation to reverse the continual surplus milk conditions plaguing the dairy industry. Milk production, as we all know, has increased to record levels while commercial consumption during this period of time lagged behind.

This resulted in CCC, through its price support and surplus program in purchasing large amounts of dairy products at a large taxpayer cost—cost at a level of more than $2.5 billion.

Commodity Credit Corporation purchases of dairy products reached a record of 12 percent of the total U.S. milk production in 1983—amounting to 16.6 billion pounds milk equivalent.

The 1983 act, as we all know, represented a compromise legislation between the dairy industry, the processors, manufacturers, the producers, and the administration. The legislation basically provided for an immediate 50-cent per hundredweight drop in support price down to a level of $12.60. It lasted for a period of 15 months, which, as I indicated earlier, will lapse in a very few days. And CCC was required to pay $10 per hundredweight for a reduction in marketings based on anywhere from 5 to 30 percent, depending upon the producer's determination to comply with the diversion program. If CCC purchases for the following 12 months were projected to exceed 6 billion pounds of milk equivalent, the support price could be lowered by 50 cents on April 1, 1985. And, as we know, our purchases are well above the trigger level, and that will be announced, of course, in a few days, whether or not the drop of 50 cents will occur.

Then if our purchases are at 5 billion pounds projected on July 1, the Secretary has the authority to reduce the price support by another 50 cents.

The 1983 act also requires a 15-cent reduction per hundredweight for marketings of milk, a checkoff system, to have a Dairy Promotion Board. That Board has been in existence now for a few months. I think that there is a vote, a referendum on their activities. And I think it's too soon to tell, completely, what both the diversion program overall, and what the Promotion Board have accomplished. Obviously, the members of that Board are very dedicated people, and I think they worked hard to try to get something done as far as promoting our dairy industry.

Thus, the 1983 act was designed to provide dairy farmers with a 15-month period in order to adjust milk production to be somewhat in line with commercial demand. And I think what we have to look at now is whether we reached some of those goals. And if the adjustment was not sufficient, the support price, of course, could be lowered in 50-cent increments. And as I indicated earlier, indications are that the trigger level will be reached on April 1.

A more detailed explanation of the effects of the milk diversion program will be provided by the Department. However, there are a few things that we can elaborate on today, Mr. Chairman. One, that very few farmers signed up for the program—about 20 percent of the commercial dairy operators in this country.

Two, marketings of milk were only about 2 percent lower in 1983-84 than the record marketing year of 1982-83.

Third, small participation in the program made it possible for a 50-cent reduction in the price of all milk marketed to nearly equal the diversion payments. So the cost of the program, because there were not very many people signed up, it took in about as much as we put out.

Mr. COELHO. Can you be more specific on that, Dick?

Mr. GOLDBERG. Yes, sir.

As of the end of February, we have $717 million that has been paid out under the Milk Diversion Program, and we have taken in about $757 million from the 50-cent reduction under the 1983 act. So that's, I think, a plus.

I should mention an additional $594 million was collected from deductions in marketings between April 16, 1983 and November 1983, which was the period before the legislation was passed. So while collections would total $1.35 billion, you can't include the $594 that was collected before the legislation was passed.

Mr. COELHO. So that figure does not include the $594,000?

Mr. GOLDBERG. That's right.

The cost of purchasing dairy products under the support program is about $1 billion less. In other words, net outlays dropped from $2.5 billion high to $1.5 billion.

Structural change in milk production didn't occur and we don't feel the Milk Diversion Program really did everything that it ought to have done. CCC purchases of dairy products have rebounded to above year earlier levels and milk production is expected to increase.

Less than half of the reduction in the surplus has been due to the reduced milk production—most of it has occurred because of increased commercial sales and more on-the-farm use.

The diversion program has provided a brief respite from rapidly escalating milk production and CCC purchases, although, very few farmers have really made a significant adjustment. More importantly, no substantive adjustment has been made in the milk processsing/manufacturing capacity, which is also heavily in surplus.

In other words, Mr. Chairman, we are in a over-capacity situation, much the same as we are in many other areas of U.S. agriculture.

While we have had a reduction of $1 billion, our 1984 surplus looks like 10.4 billion pounds of milk equivalent in surplus. So it's still rather heavy.

We also predict the producers are gearing up to expand milk production. It appears that many are holding heifers and that the dairy cow numbers will begin to re-escalate again to somewhere around the prediversion effort level.

Efficiency in terms of milk production can be measured in two ways, and we certainly have to compliment the dairy industry for meeting those levels: One, achieving increased amounts of milk from the cows. You have already had some testimony on technology, and that has been significant.

Milk production in 1985 on a daily average basis was 0.8 percent, or 85 million pounds above February 1984. And this was attained from 99,000 fewer cows with the same support price. So, I think, Mr. Chairman, the economics can show you where the problem sits.

Two, during the period 1980 to 1983, when the support price was unchanged and production was increasing, commercial disappearance increased less than 3 percent, or about 1 percent per year.

Commercial disappearance rose sharply during the first two quarters of 1984, just as the provisions of the 1983 act came into effect, and I think we were encouraged. However, the increase in commercial disappearance was not sustained and by the last quarter of 1984 it was less than 1 percent over a year earlier figure.

Mr. Chairman, I am going to quit there, I think my 10 minutes is up, and I would like to let you ask a few questions. Thank you.

[The prepared statement of Mr. Goldberg appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Dick. Actually, the yellow light says you had another minute. But I appreciate your comments and I will call on some of my colleagues before I get into questions. Mr. Volkmer.

Mr. GOLDBERG. Mr. Chairman, I have to correct an error if I may.

Mr. COELHO. OK.

Mr. GOLDBERG. When we talked about that $594 million, that is included in the $1.35 billion.

Mr. COELHO. But not included in the $757 that you were——

Mr. GOLDBERG. That's right.

Mr. COELHO. When you said the washout, it's not included in the washout? It's additional to the washout?

Mr. GOLDBERG. That's right.

Mr. Coelho. So, basically, when we talk about the program, the U.S. Treasury has made $500,000 off the dairy farmers in this whole thing.

Mr. Goldberg. That's technically correct, right.

Mr. Coelho. I don't know if other people would classify it that way, but the dairy farmers do.

Mr. Volkmer.

Mr. Volkmer. Yes; in your projections for your Agricultural Adjustment Act of 1985 and reducing the target price—I mean the support price—2 years, and then doing away with it and going to direct payments, what is your economic analysis show the actual cash prices during those periods? Say a blend price, average.

Mr. Goldberg. Congressman, the target price projected would be at $11.18 per hundredweight for marketing year 1987-88. All milk farm price projected at $9.75 to $10.50 per hundredweight, resulting in a deficiency payment from 68 cents to $1.43 per hundredweight.

Mr. Volkmer. Now, that would be only available to certain producers, though, would it not? Or would that be available to all producers?

Mr. Goldberg. That's all producers, Congressman.

Mr. Volkmer. All right. There is no provision in your bill for any type of reductions or controls on production.

Mr. Goldberg. No, no control on production. But we feel that by lowering the prices to below market clearing levels, normal supply and demand will come into play. I hope that is what you are looking at.

Mr. Volkmer. Have you looked at the question of the new technology—in other words, being able to, maybe in a few years, by that 1988-89 frame, we will be able to have a per cow increase in production of 20 percent?

Mr. Goldberg. We have looked at that, Congressman, which I think makes a good case for supporting the administration's approach to get the Government out of the purchasing business and stop the incentives for both producers and processors to increase production.

Mr. Volkmer. Your statement shows, and I think it is apparent to everybody, that what we are going to see in the immediate future is increased production later on this year. Is that correct?

Mr. Goldberg. That's what our projections would indicate, yes, sir.

Mr. Volkmer. You don't see any reduction next year either, do you?

Mr. Goldberg. No, sir.

Mr. Volkmer. So we are going to continue down the road of overproduction with no action taken to reduce it except to produce the price that the dairy producer receives?

Mr. Goldberg. You are talking about really two sides of it, and you are correct on both sides. Technology, of course, we can't stop that, and that's good. That will continue to improve. Producers and other dairy interests, of course, will continue to work for alternate uses for dairy products and things of that nature—our donation export programs, and so on.

But what you are talking about—and my response as far as the increase in production because of support programs, the level of support will continue to decrease up until the time in the third marketing year when the administration's target price concept would begin. So we feel we are on the right road, but as you point out, there is a little ways to travel before we get there.

Mr. VOLKMER. And those dairy producers are usually the smaller ones or the ones in areas where the cost of production are higher are the ones that are going to get hurt the worst under your program?

Mr. GOLDBERG. In a way, yes, Congressman, but actually, your most efficient producers will be all right.

Mr. VOLKMER. Well, it adds up to me that they will probably be all right for your larger producers, especially maybe if feed costs stay down in certain places in Florida and the Southeast, Southwest, where they would be more advantageous under your program.

Do you agree on that?

Mr. GOLDBERG. I think when you talk in terms of efficiency and in terms of the large and small, you are talking really all farmers, not just dairy farmers. Many, many small dairy farmers and other farmers are just as efficient as some of the large ones.

I don't think you can make a general overall statement that because of *x* size, that he is automatically going to be inefficient or efficient.

Mr. VOLKMER. My time is up. Thank you, Mr. Chairman.

Mr. COELHO. Thank you, Mr. Volkmer.

You said the signup was how much, Dick?

Mr. GOLDBERG. Mr. Chairman, 20 percent of the milk producers.

Mr. COELHO. If you eliminate all those under four cows, basically is what you are doing.

Mr. GOLDBERG. That's basically right.

Mr. COELHO. Yes, which is good. I appreciate you doing that.

Mr. Hopkins.

Mr. HOPKINS. Mr. Chairman, thank you very much.

Let me take this opportunity to thank you again for your continued interest in this program and having this hearing today. I want to inform the Department here today that I have just received back a questionnaire from my district in Kentucky involving all of the dairy farmers there, and I find overwhelming opposition to the USDA proposal. And I also find overwhelming opposition to the current diversion program. We have some rather unusual characteristics in the Southeast.

Today, I also wanted to bring to the Department's attention—Mr. Billy Spencer from Kentucky will be testifying in the third group that appears here. Dick, I would appreciate it if you all would listen to what he has to say. I have read his testimony. I think it is probably one of the best cross sections as to what the problems of the Southeast are—it's not long, it's very brief, but it is very concise as to what the problems really are in that area. And I would ask you to pay particular attention to what Mr. Spencer says as well as my colleagues. Mr. Chairman, thank you very much.

Mr. COELHO. Thank you very much.

Mr. GOLDBERG. We will, Congressman.

Mr. Coelho. Mr. Olin.

Mr. Olin. Thank you, Mr. Chairman.

Mr. Goldberg, I represent the dairy farmers in a section of Virginia, and we are very happy to see this diversion program come to an end. We are an area where we have not been producing a surplus, to our knowledge, over the years. And as a result of the diversion program, production was cut somewhat more, and we have been importing an awful lot of milk from out of the region. Our farmers are getting awful tired of paying the assessments. They didn't like the first assessment that went on, and they still don't like it. They will be very happy when it goes off.

I would like to just be sure I understand what you are really proposing for the administration's standpoint. I take it that you are not thinking of any additional diversion programs. Is that correct?

Mr. Goldberg. That's correct, sir.

Mr. Olin. And you propose in the near-term to continue to adjust a support level for the next 2 years based on the projected surplus. I would take it that you have said you expect an adjustment downward on April 1. Is that true?

Mr. Goldberg. This April 1, yes, sir.

Mr. Olin. And another one in July?

Mr. Goldberg. The Secretary will have the authority depending upon the trigger level on July 1, yes.

Mr. Olin. You are expecting production to return to its former level, so I will presume that the projected surpluses for 1985 and going into 1986 are still going to be quite high. Is that correct?

Mr. Goldberg. Yes, sir.

Mr. Olin. How frequently would you adjust the support level, then going into 1986?

Mr. Goldberg. Under the new program?

Mr. Olin. Yes.

Mr. Goldberg. Under the new program, I think the first one is April 1, 1986, and January 1, 1987.

Mr. Olin. So you might be down to—if the surpluses continue—you might be down to $11.10 or $10.60 by that time.

Mr. Goldberg. That's correct.

Mr. Olin. I was told that in an earlier hearing here from a gentleman from—I forget where it was—but we asked the question: For the milk that's used for processing, what kind of a support level would it take to dry up that production? And the statement was made that a level of $9.60 would be required. In other words, on that basis, we will still be encouraging production of surplus for sale to the Government on through 1986, at least, maybe longer.

Would that be about your feeling?

Mr. Goldberg. Congressman, that might be a little low—maybe for some individual producers, that's possible.

Mr. Olin. What's your feeling of the price level at which you would shut off the surplus production of, say, powdered milk, that kind of thing?

Mr. Goldberg. We really don't have one to furnish you right now, Congressman, but we would be glad to furnish it for the record.

[The information follows:]

A support price of $9.60 to $10 per hundredweight of manufacturing grade milk should in time yield a reasonable balance of surplus dairy purchases.

Mr. **Olin**. What is your estimate, Mr. Goldberg, of what's going to happen to the market price of fluid milk as we go into the next 2 years with a declining support level? Do you think that the fluid milk price will follow the support level, or will be maintained at a reasonable level?

Mr. **Goldberg**. We would think that fluid milk over that period of time—nobody knows for sure—but we think it would be fairly flat. It might be down a little bit, but we certainly wouldn't see a significant increase.

Mr. **Olin**. You would not expect the fluid milk price to follow the support level down?

Mr. **Goldberg**. Not to the full extent, no.

Mr. **Olin**. Now, you are also proposing, then, to terminate the Government purchase of surplus dairy products, then, in 2 years; is that right?

Mr. **Goldberg**. We would hope to, yes, when the deficiency payment concept would come into being.

Mr. **Olin**. Why do you feel that it is necessary to add the deficiency payment concept?

Mr. **Goldberg**. It is pretty much the centerpiece of the administration's farm program. The deficiency concept is a maximum of $10,000 per producer. And we felt for the adjustment period and for the reductions in support levels, and our stopping the purchase program, that producers would need that kind of assistance.

Mr. **Olin**. By that time, if the market price for fluid milk stays up somewhere around the current level your target price will be well below the market level. And really it's sort of an academic exercise, is it not? There wouldn't actually be any deficiency payments.

Mr. **Goldberg**. Of course, if that happens, then we won't pay out any deficiency payments, if the market price——

Mr. **Olin**. But that's a probability, I believe, sir.

Mr. **Goldberg**. Yes. For example, we didn't pay any deficiency payments on corn last year.

Mr. **Olin**. I think my time is up. Thank you, Mr. Chairman.

Mr. **Coelho**. Thank you.

Mr. Gunderson.

Mr. **Gunderson**. Thank you, Mr. Chairman.

First of all, Mr. Goldberg, just a philosophical question. Would you say that it's generally the direction of the Department, in fairness and equity, to say that the most efficient dairy farmers in this country ought to be the ones who survive?

Mr. **Goldberg**. That what?

Mr. **Gunderson**. The most efficient dairy farmers ought to be the ones who survive.

Mr. **Goldberg**. Just as I said earlier, Congressman, I don't think you could draw a fine line. You are going to have some dairy producers, we think, under these programs that some might not classify as the most efficient in the world, but we think that they will survive. There will be a place in the sun for them.

Mr. **Gunderson**. If we were going to go, in essence, to a free market in terms of dairy price supports, would it not also be consistent and fair to go to a free market in terms of marketing orders and allowing "the most efficient farmers throughout the country to be the ones who then have the ability to survive"?

Mr. **Goldberg**. Yes. Under the——

Mr. **Gunderson**. You can stop there. Yes, is a good enough answer for me. [Laughter.]

Mr. **Goldberg**. You are a tough prosecutor, Congressman.

I think that if you read the 1985 act as we proposed it, there is a task force set up to deal with the marketing order problem, and I don't profess to be the Department's leading authority on marketing orders. But, obviously, that's a part of it that must be addressed.

Mr. **Gunderson**. OK, thank you.

If you will look at your testimony for just a second, on page 3 you state there in the second line that "Marketings of milk were only 2 percent lower in 1983-84 than in the record 1982-83 marketing year."

Do you find that in your paper?

Mr. **Goldberg**. Marketings of milk, yes.

Mr. **Gunderson**. Marketings of milk, right.

Would you agree with me that perhaps that's a dishonest statement when the Dairy Diversion Program didn't start until 3 months into that particular fiscal year? And if you compare calendar year 1983 to calendar year 1984, you actually have a reduction of 3.1 percent?

Mr. **Goldberg**. That's correct, Congressman. Although I wouldn't say that—I guess I wouldn't be quite that blunt; I don't think we are not trying to be intentionally dishonest. But you are right, there is a lag.

Mr. **Gunderson**. It's as I told you before the hearing, I just want you to give the diversion program the credit it deserves—nothing more, nothing less.

Down in the lower part of that same page, in the second to last paragraph, you say that notwithstanding the fact that the diversion program saved the taxpayers over $1 billion in fiscal year 1984, the dairy program still cost in excess of $1.5 billion.

Would you agree that the exact cost was only $1.502 billion? So to say in excess is sort of stretching the definition of excess?

Mr. **Goldberg**. I am not going to debate the number with you, Congressman, that's relatively close.

Mr. **Gunderson**. OK. Would you, for comparison purposes, say that it is also correct that the wheat program in fiscal year 1984 cost $2.5 billion?

Mr. **Goldberg**. That's correct.

Mr. **Gunderson**. Now, since the diversion program is still in effect, it should have a favorable cost in the dairy program in fiscal 1985 as well; is that correct?

Mr. **Goldberg**. No.

Mr. **Gunderson**. It should not?

Mr. **Goldberg**. Should not.

Mr. **Gunderson**. Why?

Mr. **Goldberg**. The diversion payments, we believe will exceed the collections.

Mr. **Gunderson**. But you were the one who just got done telling us in your statement that you project that in fiscal year 1985, once the diversion program ends, there is going to be a substantial increase in production. And isn't that going to mean a substantial increase in purchases? And isn't that going to produce a substantial increase, therefore, in the cost of the program?

Mr. **Goldberg**. I am going to ask Mr. Shaw to answer that because he—if you don't mind—understands the economics better than I do.

Mr. **Shaw**. Congressman, the accounting mechanism for getting at that bottom line cost takes the cost of purchasing the products plus other costs, less other receipts, plus the cost of the $10 payments, minus the 50-cent collections that come in during that fiscal year. There is a lag in the payments—we don't pay except quarterly, following the end of the quarter. So, therefore, in fiscal year 1985 we will have payments for 6 months of the 9 months of the diversion program, in collections for only 3 or 4 months during the diversion program, so that outweighs any differences in the purchase costs.

So while we had a benefit from the collections exceeding diversion payments in fiscal 1984, that will flip on us in fiscal 1985. That is why we have consistently maintained that over the 15 months of the program—the proper thing to say is over the 15 months of the program, that the diversion payments will just about be offset by the 50-cent collections.

Mr. **Gunderson**. I understand all that, and my time is up. But I think that still doesn't answer the question. It's clear that, because of the diversion program, the total costs of the purchase program are significantly less than they would have been under normal circumstances.

Mr. Chairman, I have more questions. Perhaps we will have another round later on.

Mr. **Coelho**. We will have another round, and I think your conclusion is very fair.

Mr. **Goldberg**. I would say that that's true.

Mr. **Coelho**. Thank you, Mr. Goldberg.

Mr. Penny.

Mr. **Penny**. Mr. Chairman, thank you.

Mr. Goldberg, in pursuing Congressman Gunderson's line of questioning, it is clear that by discontinuing the program we are going to move back to a situation where we increase the costs to the Government for our dairy program.

Why does the administration insist that we discontinue the diversion program instead of extending it through the remainder of this fiscal year? Given that you are supposed to be looking out for the budget in this administration, why do you insist on going back to a program that costs more to the Treasury than it would if we would continue this program for 6 more months?

Mr. **Goldberg**. First of all, Congressman, you want to remember that that was a deal that was cut between the administration and the Congress.

Mr. **Penny**. It was a deal that was cut because we figured it would work. And now that it has proven to work and it has reduced the cost to the Government, why do you insist on costing the Government more?

Mr. GOLDBERG. I disagree with you, Congressman, when you say it worked. I don't think that our figures would indicate that it worked. And if you wait for the next months, you will find out it did not work.

Mr. PENNY. Mr. Goldberg, it worked to the extent that we reduced dramatically the cost of the dairy program. And if we want to save the Treasury money, why does the administration insist that we now go back to a more costly dairy program for the remainder of this year.

Mr. GOLDBERG. Primarily, if we do in fact reduce the support levels, we will start moving the dairy industry toward the market forces. And ultimately in the short run, maybe it will cost some money. But in the long run, that $1.5 billion will come down very dramatically. So that in the outyears, eventually we will get the program back into the kind of supply/demand situation that it should be in.

Mr. PENNY. But at least for 6-more months we could save the Treasury a considerable amount of money and then move, beginning in October, to a different kind of dairy program that would save us money long term. Isn't that true, Mr. Goldberg?

Mr. GOLDBERG. It is pretty hard to talk about extending the program, Congressman, because it would be a disservice to dairy farmers. First of all, we have a contract with these people which expires. And we would have to go back out administratively, reframe all the contracts, and everybody would get into the activities as to what ought to be a part of that extension. In the long run, I don't believe that we would save very many dollars by continuing the program.

I might also say, there is no industrywide support for a continuation of the diversion program. You have got some people that want it, yes. But you have got a lot of people out there who do not want it.

Mr. PENNY. There are a lot of people out there who aren't in the program.

I want to move along to another line of questioning.

What happened to retail dairy prices during the time of this program?

Mr. GOLDBERG. Retail prices, I guess, some of the period of the time, were down. We had, I think, a period, though, in late 1984 when prices were up.

Mr. COELHO. Will the gentleman from Minnesota yield?

Mr. PENNY. I will yield.

Mr. COELHO. And we will not take this out of his time.

If you will look in your blue folder, we have some charts indicating what the prices were and what the impact was on not only cost to the program, but red meat and everything else, so you might want to look at those blue folders.

Mr. PENNY. Thank you, Mr. Chairman.

Mr. Goldberg, under the administration's 1985 farm bill, what assumptions are built in? You already talked about your assumptions on the level of milk production. What about your assumptions on interest rates and consumption rates? You must, in drafting your farm proposal for dairy, have had some assumptions built in on interest and consumption rates.

Mr. GOLDBERG. Congressman, I am not prepared to give you that.

Mr. PENNY. Can you provide that for us?

Mr. GOLDBERG. I can provide it for you.

Mr. PENNY. I would appreciate that.

[The information follows:]

Assumption: dairy consumption increasing at about 1 percent per year.

Question. What are AAA assumptions for interest rates?

Answer. Interest rates will continue to be a function of monetary and fiscal policy decisions. However, if positive action on the budget deficit occurs and the AAA were implemented, we would expect real interest rates to decline to the 3-to 5-percent range. This would imply single-digit interest rates for the first time since 1978.

Mr. PENNY. If corn prices decline as we expect them to under the first years of the administration's farm program, if we pass that farm program, what effect do you think that is going to have on dairy production?

Mr. GOLDBERG. On dairy production?

Mr. PENNY. Yes.

Mr. GOLDBERG. I think it just helps the producer more than it would affect the production of milk.

Mr. PENNY. You don't expect that it will increase production of milk?

Mr. GOLDBERG. Not that much.

Mr. PENNY. Then you think it will increase producer profits but not production levels?

Mr. GOLDBERG. I would hope so. I am not sure that you can project it necessarily as to what is going to happen with corn and other grain prices, either.

Mr. PENNY. If I could ask one last question.

Mr. COELHO. You have another minute. Go ahead.

Mr. PENNY. In your testimony on page 10, you suggest that it is imperative that the dairy industry become united behind a single approach.

When you developed this dairy proposal, did you meet with dairy groups and, if so, are they in support of your program?

Mr. GOLDBERG. I can't comment on that, Congressman, because I didn't personally meet with dairy groups.

Mr. PENNY. Is there someone on the panel that was involved in the development of your dairy proposal that can tell us whether dairy groups were consulted?

Mr. GOLDBERG. Congressman Penny, the Secretary, if you will recall, held hearings all over the United States, I believe including Minnesota, to have interested people talk about farm programs, which included dairy. And as I recall, there was plenty of participation in every corner of the country.

Mr. PENNY. So dairymen were involved in testifying at those hearings?

Mr. GOLDBERG. That's true.

Mr. PENNY. Do you know what stand the dairy groups have taken on this proposal?

Mr. GOLDBERG. I don't know that there is a consensus, Congressman—very similar to where they were on the diversion and other pieces of dairy legislation. I don't think there is a consensus.

Mr. **Penny**. My time has expired, Mr. Chairman.

Mr. **Coelho**. Mr. Daschle.

Mr. **Daschle**. Mr. Chairman, I would like to pass for just a minute, if I could, and take my time in a moment.

Mr. **Coelho**. Mr. Stangeland.

Mr. **Stangeland**. Can you give us any figures as to how much we imported in dairy products in the period of time that the diversion program was in effect? Were those imports up or down from the days previous to the diversion program?

Mr. **Goldberg**. About 2.5 billion pounds, milk equivalent.

Mr. **Stangeland**. Milk equivalent. And how much had we——

Mr. **Goldberg**. That's been about the same.

Mr. **Stangeland**. It has been about the same. No change substantially.

I notice one place in your testimony you state that we had reduced purchases $1 billion, but we still had 10.4 billion pounds equivalent in surplus.

Mr. **Goldberg**. That's the cost of the program, Congressman, the reduction of 1 billion, not purchases.

Mr. **Stangeland**. OK. I misstated that.

But you also stated that there's 10.4 billion pounds equivalent in surplus.

Mr. **Goldberg**. Yes, sir.

Mr. **Stangeland**. How much was in surplus prior to the diversion program going into effect?

Mr. **Goldberg**. We peaked out, I am told, at around 16 to 17 billion. That was the high prior to the program.

Mr. **Stangeland**. Prior?

Mr. **Goldberg**. Right.

Mr. **Stangeland**. So there was a substantial reduction in the surplus carryover?

Mr. **Goldberg**. We indicated, Congressman, earlier in my remarks and our testimony, that in the front end of the diversion program there was a short-term respite from what was going on. And when we began seeing our monthly purchases after the startup of the program, we had some significant reductions. We were still buying substantial amounts of dairy products. But the reductions were substantial. However, by the time we begin to get toward the end of the diversion program, we are now almost back up to where it was before.

I might also add, though, Congressman, if you look at our export side, we have increases in donations and other programs that have helped reduce the dairy surplus.

We are working every way we can to get rid of it.

Mr. **Stangeland**. Has the administration in fashioning their new program given any consideration to increasing the quality standard for milk in this country? Increasing the quality standard, the Federal quality standard, for milk in this country.

Mr. **Goldberg**. I am somewhat familiar with it, but not that familiar with it. If you are talking about the California study——

Mr. **Stangeland**. Yes, and the California quality standard.

Mr. **Goldberg**. Which is a higher level standard than the rest. I don't believe the administration addresses that in the program.

That doesn't mean that other States couldn't adopt those kinds of standards.

Mr. COELHO. In line with that, Dick, could you let us know what the administration's position would be on that?

Mr. GOLDBERG. On standards?

Mr. COELHO. Yes.

Mr. GOLDBERG. Yes.

[The information follows:]

The Department of Agriculture is interested and concerned with the composition standards for fluid milk products as they bear on milk consumption and surpluses and on the nutritional well-being of all Americans. However, at the Federal level, the Food and Drug Administration [FDA] is responsible for administering these composition standards. The Federal standards apply to products moving in intrastate commerce. Individual States have responsibility for administering composition standards for fluid products sold within their State.

In May 1982, USDA proposed exploring the impact of raising the Federal minimum standards to levels currently in effect in California. The Department has discussed this issue with FDA. USDA also recommended that individual States consider voluntarily raising their minimum composition standards for fluid milk products.

Congress mandated in the 1983 Dairy and Tobacco Adjustment Act a study of the impacts of raising Federal composition standards to California levels. This study, entitled "Nationwide Adoption of the California Solids Standards for Fluid Milk Products," was completed by the Economic Research Service and published in August 1984. The results of this study indicate while there appears to be some sound arguments both for and against raising the solids standards for fluid milk products nationwide, there are still many unresolved issues.

Mr. COELHO. Mr. Stangeland.

Mr. STANGELAND. I have no further questions, Mr. Chairman.

Mr. COELHO. Thank you, Mr. Stangeland.

Mr. Rose.

Mr. ROSE. Thank you, Mr. Chairman. I will be very brief and just have one question for Mr. Goldberg.

You made some comments when you started, and you have heard several comments about the diversion program. You are certainly probably aware that when we passed that—and, really, when we pass almost any dairy legislation in this committee, we try to weigh the varying interests of the dairy farmers from the various sections of the country.

Now, my question to you is this: What is your concept of the various needs of the dairy farmers from the different parts of the country? In other words, what's your concept of how they vary? And what, if anything, do you and your Department propose to do to meet the varying needs?

I will just give you an example. Frequently, the dairy groups come here and the dairy farmers from my area have a fluid milk shortage, for example, and were very unhappy about the concept of the diversion program. Yet, went along with it in an effort to work out some kind of a compromise that they felt would be good for the whole country.

To be honest with you, they are a little less willing to be so compromising this go-round. But I understand and am very sensitive to the needs of the dairy farmer all the way from Texas up to Wisconsin and in California.

Now, surely you and your people are aware of these differing needs and differing concerns. Are you proposing any flexibility to take care of that, or what would your approach be for this year?

Mr. GOLDBERG. Congressman, you are from the Southeast, as we know, and we know what has happened down there in terms of deficit production. But if you look at the total national dairy industry and the way milk flows marketingwise, it flows across political and State boundaries. So we don't look at it on a regional basis. As a matter of fact, if we would go to a regional concept, as some have suggested, we would see more instead of fewer price distortions than we have now under the current situation.

I understand where you are coming from and I do know what happened in the Southeast resulting from a number of factors. You had a heavy signup in your area, as you probably know, in relation to the rest of the Nation in the diversion program. So, as the program began to move into being, the Southeast did experience some deficit times. But as I understand it, they have in the past as well.

Mr. ROSE. So you are saying you haven't considered regional difference?

Mr. GOLDBERG. We have considered it, Congressman, but we think that it would make matters worse instead of better if we attacked it on a regional basis.

Mr. ROSE. Don't we take regional differences into consideration in other commodities?

Mr. GOLDBERG. You do where the grade and differences are—in wheat, for example, there are several different kinds of wheat. Wheat is not wheat.

What Congressman Stenholm produces in his State of Texas is not the same wheat that they produce in my State in North Dakota. I don't know if that is what you are talking about or not.

Mr. ROSE. I do, but it looks like to me that it is in the national interest for there to be dairy producers not only in the Southeast but in the North Central and in the South Central and in the West that is in the national interest that we have a policy that somehow helps them all to produce a constant and good supply of dairy food for the American public.

That's part of your responsibility at the USDA. It should be to help us find a way to deal with those regional differences rather than to just say we don't have any—you know, we choose to look at everything the same. Because, surely, you understand that there are regional differences in——

Mr. GOLDBERG. Congressman, as you pointed out earlier, you have got deficit regions for certain agricultural products everywhere in the country. And you are not going to change that because that is the way market forces work. I think to approach the dairy situation on a regional basis or to isolate just one area, you get a great deal of distortion in the market flow, not to mention the reaction of others within the industry across the rest of the country. And in just one region—it would be impossible to be equitable.

Mr. ROSE. OK. Thank you, Mr. Goldberg. Thank you, Mr. Chairman.

Mr. COELHO. Mr. Jones.

Mr. JONES of Tennessee. Thank you, Mr. Chairman.

Mr. Goldberg, I appreciate the fact that you are here. I was not here for the entire testimony, however, I have tried to peruse it as best I can. I see that we are in the same boat that we have been in in the past, regardless of how hard this subcommittee may work to effect a dairy program that is of benefit to the entire country, the Department, whoever it might be, seems to want to put a damper on the success of the program.

I know there are some dairy farmers who did not participate in this program. There are good reasons for it. Mr. Rose just pointed some of them out. As a member of the subcommittee for a good many years and as a former dairy farmer, I can see why some people do not participate in a program of this sort. However, it seems to me to be to the benefit of the milk producers of our country, and to the people that we are to service, to continue to have some sort of a program that the dairy farmers themselves would like. I say this regardless of whether we have got 20 percent participation in this program or not—and there are a lot of geographical reasons why that existed.

It seems to me that there is nothing wrong in continuing a program of this sort. You know, I know, this subcommittee knows, and this audience here today knows, that the scheme and devise that is being developed here by this paper, and by what you have had to say, simply means that there will be a reduction in the price of milk to the dairy farmer, whether he be a fluid milk producer or a manufacturer/producer. As the Secretary gets an opportunity to reduce the price on the basis for which is outlined here, the price is going to go down. We know that. With all the surpluses that we have in this country, it is imperative that something be done.

But I think that we have been on the right track for the last year and a half since the diversion program was enacted. It seems to me that a simple continuation of a program of this sort, with some improvement, would be much better than what you are proposing here today.

You can comment or you don't have to regardless of what you like.

Mr. GOLDBERG. Congressman, I guess I would respectfully disagree with you somewhat.

Mr. JONES of Tennessee. You normally do, Dick.

Mr. GOLDBERG. Yes, sir. I am too old to change.

I would say, Congressman, that continuation of the program would be a step in the wrong direction, and there are a number of reasons in addition to the fact, as you pointed out, there's not a large degree of support for the continuation of the program amongst dairy producers. Obviously, some would like to continue the program, and others would not.

As I pointed out earlier, aside from the administrative problems, we would have to get into a new contractual situation, and I just don't think that's the direction to go. You do point out what the problem is, but I just feel that until we get the support mechanism somewhere in line with the prices, world, domestic, dairy prices, we aren't going to solve the problem. The Government is going to continue under existing rules and regulations to buy its surplus dairy products.

Mr. JONES of Tennessee. Let me say this and I will conclude because my time is about to expire.

If we are to change—and I know that's what the administration wants done, I wish that we could be offered something that would be effective and something that's better than what we have today or what we are going to have when this program does expire.

Thank you, Mr. Chairman.

Mr. COELHO. Thank you, Mr. Jones.

Mr. Daschle.

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. Goldberg, I have a real hard time believing that after all those hearings that you held around the country, this is the best you can come up with. I think it is a disaster but I would like to go through some of your testimony very briefly.

You say on page 4 that the surplus in 1984 still was 10.4 billion pounds, but when the diversion program ends, farm use is expected to revert to normal levels and marketings will be increased by that amount.

What do you mean by normal? If you are talking about the last couple of years, is that normal?

Mr. GOLDBERG. I suppose when we say normal in the context of my testimony, Congressman, I suppose we are talking about prediversion.

Mr. DASCHLE. Prediversion? And that's normal?

Mr. GOLDBERG. Normal is about 2.4 billion pounds.

Mr. DASCHLE. What you are saying is that as soon as this program ends, we are going to see increases to what I would consider abnormal. I suppose we need to define what normal is—but then, also, that marketings will be increased by that amount. I am really troubled by that.

You are already telling us that when this comes off we are going to take the roof off, with regard to supplies and costs. Isn't that what you are saying?

Mr. GOLDBERG. I don't think the sky is going to fall, Congressman. Our position is that we have already started to see a gradual increase.

Mr. DASCHLE. And you are willing to take that risk?

Mr. GOLDBERG. You mean rather than extend the program?

Mr. DASCHLE. That's right.

Mr. GOLDBERG. The program, in our judgment, is a program that was a mixed bag to start with.

Mr. DASCHLE. But you are telling us the alternative is just what we have said, that the cost is going to go up and the amount is going to go up.

Mr. GOLDBERG. What I think you are failing to look at, Congressman, is that as you take the program today, where it is, and where we are headed, a continuation of the program would not take care of the problem.

Mr. DASCHLE. Let's talk about where we are headed under your idea. On page 10, I go back to what Congressman Penny was talking about, about your call for a consensus. Let me ask you: Which dairy farm organizations have already endorsed your proposal?

Mr. GOLDBERG. I don't know which ones are for it or against it, Congressman.

Mr. DASCHLE. If you are so interested in a consensus, maybe you can tell us. You have obviously talked to them, you have sat down with them, and your culminating statement, after 10 pages of rhetoric, is we have to have a consensus. So now I am just giving you an opportunity to tell us what kind of a consensus you have before you proposed this.

Mr. **Goldberg**. Congressman, if you remember my earlier remarks when we started, I indicated that in a, I believe, a 4-year period, there were seven changes in legislation. We had the latest one, in 1983. As I indicated, the Secretary has had a number of hearing sessions across the country. We have had a number of meetings.

Mr. **Daschle**. Are you telling me there is no consensus on your proposal?

Mr. **Goldberg**. There has never been a consensus on any proposal.

Mr. **Daschle**. Then why did you offer it? If you think consensus is so important, how could you come before the subcommittee and say, well, I think you guys ought to get a consensus, but we couldn't get one?

Mr. **Goldberg**. Congressman, it's the industry itself that needs to reach a consensus, and you are not going to get them to do that.

Mr. **Daschle**. But I thought you were our leaders. I thought that as a governmental entity trying to provide some leadership and direction in agriculture that you ought to be the one to be building the consensus. What is your leadership if that is the case?

Mr. **Goldberg**. Congressman, I believe that the record is pretty clear. The Secretary has been a leader in the promotion of these programs and he has not waivered. His position on dairy has been the same.

Mr. **Daschle**. The record is mighty clear but I don't come to the same conclusion you do about what that means.

Let me just ask you one last thing in regard to your proposal.

What is the average payment made to dairy producers now? Can you tell us?

Mr. **Goldberg**. The average payment?

Mr. **Daschle**. Let me ask it this way, what is the——

Mr. **Goldberg**. Based on size, no size, what?

Mr. **Daschle**. Let me take it from a different direction. You are putting a $10,000 payment limitation on your proposal right now. Do I understand that correctly?

Mr. **Goldberg**. Not until 3 years down the pike.

Mr. **Daschle**. Under that $10,000 payment limitation, can you project net farm income? Do you expect that it will go up? What will the net farm income be with a $10,000 payment limitation?

Mr. **Goldberg**. We would hope, Congressman, that——

Mr. **Daschle**. What do you think? Not what you hope. What do you really project will happen? Obviously, you have talked to your economists. They have said, all right, you give us a $10,000 payment limitation, here is what it will do to net farm income. Certainly, you have thought out that far what considerations would have to be taken into account with that payment limitation. What will it do to net farm income?

Mr. **Goldberg**. I am told, Congressman, that our projections on net farm income are on total net farm income for all programs and we have not separated dairy out, but we will try to do that for you. Quite obviously, though, that if you move in a market direction, it would be—I would suggest that all of the $10,000, that's purely an income transfer in order to help producers that need it the worst get an adjustment. That's not part of the income.

Mr. DASCHLE. Regardless of what it is, if you don't have those statistics, if you don't know what a net $10,000 payment limitation will do to net farm income, I think you need to go back to the drawing board. I mean, I think it is ridiculous to come up here and tell us you don't know what that is going to do to net farm income. And I am hoping that you can break those figures out because I have to assume that you have done at least that kind of a calculation before you would make this proposal.

Thank you, Mr. Chairman.

Mr. COELHO. Thank you, Mr. Daschle.

It would seem to me that if you so desire, if you will put your questions that you want answered more specifically, we will request that the Department give us specific answers.

Mr. DASCHLE. I have some additional questions, I appreciate that.

Mr. COELHO. I would be glad to do that.

Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

The purpose of this hearing is to review the Dairy Diversion Program. Mr. Goldberg, you stated that, I believe I quote you accurately, that in your opinion, the diversion program did not work. Is that correct?

Mr. GOLDBERG. I would say, Congressman, in all fairness, that initially, at least, in my testimony, I did say that it had a short-term respite from what would have happened had we not had a diversion program.

There are a number of factors in addition to the program, which in the front end of the program spelled some degree of success. So I wouldn't categorically say it was a flop.

Mr. STENHOLM. All right. I want to pursue—let's look at four entities in which it may or may not have worked. I happen to believe that it worked. But at what cost, is the question that we ask? What cost did it have on beef producers?

Mr. GOLDBERG. Negligible.

Mr. STENHOLM. What cost did it have on consumers?

Mr. GOLDBERG. Certainly no additional cost, Congressman.

Mr. STENHOLM. In fact, let the record show that milk prices have increased since January 1, 1981, from $1.10.4 per half gallon on fresh whole milk to October 1984, $1.13.2, a net increase in milk at the consumer level in 3 years of .028 cents.

So I don't believe we can establish that the diversion program has had an adverse cost on the consumer. You stated that. What is the cost to the taxpayer?

Mr. GOLDBERG. I think I stated that there was a reduction in the Dairy Price Support Program of about $1 billion.

Mr. STENHOLM. The taxpayers actually saved some money, then, under the program?

Mr. GOLDBERG. Yes, sir.

Mr. STENHOLM. At what cost to the dairymen?

Mr. GOLDBERG. Those that did not participate in the program, of course, sustained the 50-cent deduction.

Mr. STENHOLM. That's correct. But I think that we would have to agree that there has been a net plus to the dairymen. We have eliminated some surplus, which helps all dairymen. But there was a cost to those that did not participate.

What would have been the result had we had a 40-or 50-percent participation?

Would we have reduced commodity credit surpluses a little bit more? Or would we have increased it? Would the cost have gone up, down?

Mr. GOLDBERG. I think that if we had that level of participation, Congressman, we might have had—our costs would have gone up, but I think we would have come a little closer to a better balance.

Mr. STENHOLM. I totally agree.

Then my next question is, going along with what Mr. Daschle was asking on a consensus and what have you, I am puzzled as to why the administration is suggesting now that we move away from a program of which we are beginning to hear a consensus out in the country that consumers are willing to pay a fair price at the marketplace for that which we are consuming in the United States. But yet in response to my questions I previously asked you—as I see your proposal, you are suggesting that we do for dairy what we have done for wheat and other commodities, that we start subsidizing the consumer and making it up with taxpayer dollars.

I fail to understand the rationale. Why are you suggesting now that we should lower the price of milk and begin a target price payment and shift the cost to the taxpayer rather than trying to come up with a combination program that works and keeps the cost to the taxpayer negligible?

Mr. GOLDBERG. Congressman, I would disagree that that's what we are trying to do with wheat, because the 1985 agricultural legislation addresses the problem of targets and loans and those commodities where those apply, and loans on others where it applies in relation to market forces.

Our position is that when you buy milk in the supermarket, that price should be reflected in the marketplace and not what the Government is paying to buy the products. We shouldn't be the price-setter, the market should.

I might add that supply management concepts with almost all commodities have nearly never worked, they just have not reached their goals. And although some of these ideas would have some short-term relief and some short-term reductions in cost, in the long-term they would not serve the best interests of either the producers or the consumers.

Mr. STENHOLM. I would hope, Mr. Chairman, as we deliberate a future dairy program and all, that everyone, be they producers, consumers, taxpayers, and dairymen, would remember the answers Mr. Goldberg gave to my questions today. The diversion program had some warts on it, no question about that. But anytime you can have a question asked on any concept in agriculture, as controversial as it is, and have the answers as was provided, I would hope we would not throw a concept out this early in the game.

Mr. COELHO. Thank you, Mr. Stenholm.

Mr. English.

Mr. ENGLISH. Thank you very much, Mr. Chairman.

Mr. Goldberg, I noticed at the bottom of page 3, you make the statement in there that CCC purchases of dairy products have rebounded above a year earlier levels and milk production is expected to increase sharply in coming months.

I got to wondering about that, and it seems to me that if I were out here buying dairy products, or buying milk, and producing dairy products, and I knew that on April 1 the price was going to drop 50 cents, I believe I would hang on until April 1. Wouldn't you?

Mr. GOLDBERG. I would say that your question, Congressman, is slightly narrow, because you have got large inventories involved, both in our stocks and in the private sector, so to speak, so I don't think that that's necessarily true.

Mr. ENGLISH. That's exactly the point—the reason you would wait until April 1. If you are in the private sector and you have got pretty good stocks on hand, why not wait until April 1 when you know the price is going to fall? You are in a perfect position to do it, aren't you?

Mr. GOLDBERG. You might be, but that isn't the way the real world would necessarily work. That's like saying when people recognize that something is going to happen in the market, most people who trade in the market day to day—and that includes dairy—they have already taken that into account, and your price reflection has already been made. So that when the reduction or increase, whichever, occurs, you don't see that much distortion in the market.

Mr. ENGLISH. Even though the price is going to fall 50 cents, you think the market has already discounted the impact this is going on have on April 1, is that right?

Mr. GOLDBERG. I think so, sure. I don't think the dairy industry operates any different than any other commodity group.

Mr. ENGLISH. I would absolutely agree with you. I don't think they operate any differently either. But until the price is there, until the price is cut, it's not cut. You can sit there and anticipate it all you want to. That's exactly the point. They are anticipating, and that's the reason you have CCC stocks increasing. It is simply because they are anticipating. That's the only thing that makes any sense. That is pure, simple economics.

Speaking of economics, it seems to me that what you are getting around to here with regard to the dairy program is similar to what you are doing with the wheat program, which is similar to what you are doing with the peanut program, which is similar to what you are doing with all the agriculture programs.

The real thrust of the administration's farm program is not based on trying to use the right tools to meet the problems that these different commodities may be having and trying to work with the different groups that are involved in it, namely, the farmers, farm organizations that represent these different commodities. But what you are trying to put in place overall is one great, big, huge philosophy. We are going to impose a philosophy. And you are ignoring the reality. You are ignoring the problems that each of these commodities have. And I suppose that everyone who has been on this committee for a while, and certainly anyone that has been doing agriculture legislation very long, understands that each commodity has its own pecularities and has to be addressed in such a manner.

Isn't that true, Mr. Goldberg?

Mr. GOLDBERG. I would agree with you, Congressman, to the extent that those commodities under Government programs, which is less than half of American agriculture, the deeper the Government program, the more difficulty they seem to be in.

We have a large percentage of American agriculture that is not involved in support programs, as you well know. But the basic concept of the administration's proposal, as you point out, the peanuts, and dairy, and so on, is to get all of those programs into some kind of marketing system where they get acquainted with the competitive marketing forces in a free enterprise system, and not depend upon the Government to buy the products to set the price.

Mr. ENGLISH. Regardless of whether the farmers feel like their particular program is working or not, isn't that true? You really don't care whether they think it is working or not. You really don't care what they think about a particular program or approach.

What you are going to do is impose your philosophy regardless of what the farmers think of that program, regardless of what the history of the program is, whether it has worked or hasn't worked.

Mr. Stenholm just got through pointing out that the U.S. Government saved $1 billion with this diversion program over the last year, and that's good for the Government.

Are you really concerned about the cost, or is it only the philosophy?

Mr. GOLDBERG. Congressman, I think the record is very clear. I think that this Secretary of Agriculture, and this administration, has been very sensitive and supportive of the interests of all farm groups. And I think to sit there and say that this is just our philosophy and nobody else agrees with us, I don't think that that's correct. I think that we share a mutual respect for each other and that we are trying to address a difficult agricultural problem.

I commend the subcommittee and you, Congressman, for your efforts in trying to reach that approach.

Mr. ENGLISH. I would suggest to you, Mr. Goldberg, the Secretary was up here about a week ago and presented his program, and he flat said he didn't know anybody much that was supporting it. You know, that would kind of lead one to believe that the Secretary hadn't been too concerned about whether anybody likes it or not. He is going to present it, this is his program. And as I said, I have got some serious questions in my mind, Mr. Goldberg, that even if the cost of the proposal that the Secretary is offering is going to increase costs, he is still going to try to impose it. It is a philosophical goal that you all seem to be trying to reach instead of trying to work in what is in the best interest of the taxpayer and what is in the best interest of the farmer.

Mr. GOLDBERG. Congressman, I don't believe that we are pushing on with any kind of a program, in dairy or any other commodity, at the total expense of nonsupport and that it is just a philosophical idea of the administration. That is not true.

I would say that the administration supports marketing of commodities in relation to market forces and not relation to the Government. I have to think that the majority of American farmers out there would agree with that concept.

Mr. ENGLISH. Oh, I agree with it. But there are a number of different ways of reaching that goal. And you are saying you either go our road or you don't go at all. That is the approach that you have been taking.

Now, I would suggest to you, when the question was asked—and I believe it may have been Mr. Daschle or Mr. Glickman who asked it last week of the Secretary—what is non-negotiable about your proposal? The Secretary came back with a couple of philosophical statements. The philosophy is what is non-negotiable.

Isn't that true, Mr. Goldberg?

Mr. GOLDBERG. Congressman, you and I can sit down and agree on what kind of marketings ought to take place. And how we get there we might differ. All I am saying is that I don't remember any piece of agriculture legislation that was introduced by any administration that floated through intact, nor do I remember the Congress of the United States within the 4-year period of the legislation not changing a few things along the way, or administrations asking for changes as it goes.

So, I don't think that anything is carved in stone. But I do think that the Secretary is correct when he tells you that philosophically he supports a market-oriented agricultural program.

Mr. ENGLISH. The question was, though, what is non-negotiable about his proposal? And I would agree with you that there is no proposal that is going to be made that is going to go through the Congress unchanged, by any administration. But that is what alarmed me, because I think that if we are going to be successful in coming up with a good farm bill, and if we are so wedded to a philosophy that we resist and insist upon that philosophy regardless of the reality that we are facing, then we are going to be in for a very long, tough road with this 1985 farm bill.

Thank you very much for your patience, Mr. Chairman.

Mr. COELHO. Any other questions from anybody else on the subcommittee?

[No response.]

Mr. COELHO. Mr. Goldberg, I just want to make a couple of comments. I know that you weren't in your current position when we put through the compromise bill the last time. Somebody said here that a deal was made, or struck, or whatever, the administration wasn't in on the deal. I mean, they were opposed, they were on the other side. And you tried to defeat it.

At that particular time, there were three things that basically you people said would happen. It would cost the Treasury more money. That did not happen, according to your testimony.

That it would cost consumers more. That did not happen, according to your testimony this morning.

And that it would seriously injure the meat industry due to the influx of culled cattle. Now, that hasn't been asked by anybody, but based on our data, that did not occur either.

Now, I don't know if you disagree with the latter but it would seem to me that the three points that you and your unusual coalition had did not occur.

I find it intriguing that the administration took a position of opposition and said the roof will fall if you do this. It did not. And the administration still takes the position that the troubles are ahead, and so forth. I wonder at some point when the administration will get on and be positive. The more negative you are, the more right you become, if you keep on, particularly in the administration that should be leading in this particular situation, that you start to bring the negative about by talking about it.

I would hope that the administration would be somewhat more positive about what we are doing. This industry paid its own way. It didn't have a PIK Program paid for by the taxpayers that other commodities had. This industry paid its own way to try to relieve some of its problems, and it did, according to your testimony.

It would seem to me that the administration ought to be applauding their efforts in trying to do something about it instead of continuing to be negative about everything that its tried and everything that it has attempted.

Now, your testimony was halfheartedly complimentary in that it worked, but very reluctantly. And I think that is a little bit unfair to this industry that has suffered this.

Mr. GOLDBERG. May I respond just very briefly, Congressman?

Mr. COELHO. Yes, I am waiting anxiously.

Mr. GOLDBERG. Mr. Chairman, our projections on what would occur are just projections. The industry and everybody else that supported the Dairy Diversion Program would agree, nobody expected a pitiful signup of 20 percent. And had you had the projected signups that most people thought would happen, most all of what we anticipated would have occurred.

Mr. COELHO. Mr. Goldberg, the facts are that the signup was the signup. And the facts are that what you predicted did not occur.

Now, in this life you could go through life—and a lot of games are replayed on Monday morning—but things did not occur. The facts are what we need to discuss, and not what if—the ifs did not occur. And I know we could have been right too if certain things would happen. But we could get in long philosophical discussions about ifs. The facts are certain things did occur. And under those conditions, all those things that you people projected did not happen.

Mr. GOLDBERG. If both of us had known, Mr. Chairman, what we know today, the projections would have been different. And I still maintain that the 20 percent signup—the fact that feed costs were relatively high during that period, and other factors had a great deal to do with what ultimately happened as a result of the 15-month Dairy Diversion Program. Unfortunately, I don't have 20/20 hindsight.

Mr. COELHO. Neither do I, but some of us are willing to gamble and try to see if we can do something positive. Others are not, and that's the difference.

Mr. Goldberg, let me ask you another question—something that I have talked about repeatedly with the administration, we have sent letters, and this subcommittee has sent a letter, and the full committee has sent a letter, both sides, and so on—is that the government of China is interested in dairy products. We have asked the administration to look into that. We have had a number of different answers and none of them satisfactory.

Do you know the status of that? Is the administration still considering the questions in regards to China's interest?

We talk about the surpluses and we talk about all the problems, but are we aggressively looking at people that are interested buyers in taking up some of this surplus? What do you know about it, and what can you tell us about it?

Mr. **Goldberg**. Let me respond in two ways, Mr. Chairman. I am not familiar with the Chinese activities. I can look into that and respond at a later date.

Mr. **Coelho**. Would you, please? We have only proposed this—it will be about 2 years in May when we proposed it.

[The information follows:]

The Department has received correspondence from Congressman Coelho relating to the sale of dairy products to the People's Republic of China under PL-480. Submitted for the record are two letters from USDA to Congressman Coelho on this matter.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

Honorable Tony Coelho
House of Representatives
Washington, D.C. 20515

Dear Congressman Coelho:

Based on your concern that your letters to the Department concerning the sale of dairy products to China had not been replied to, I asked the staff to check our files. I was able to locate a letter to you dated January 26, 1984 and signed by the Associate Administrator of the Foreign Agricultural Service, Mr. Leo Mayer. A copy is enclosed.

We are continuing our interest in selling U.S. agricultural commodities to China. However, the same situation with regard to the artificial price of U.S. dairy products as noted in our earlier letter exists. Also, there has been no expressed interest in our Public Law 480 Title I concessional sales program by representatives of the People's Republic of China. Therefore, no further action in this area has been considered. As noted in our earlier letter dairy products are not currently included among the commodities in Title I agreements.

Again, we appreciate your continued interest in this subject and regret if our earlier letter went astray.

Sincerely,

Richard W. Goldberg
Deputy Under Secretary for International
Affairs and Commodity Programs

Enclosure

United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D.C.
20250

JAN 26 1984

Honorable Tony Coelho
House of Representatives
Washington, D.C. 20515

Dear Congressman Coelho:

Thank you for your telegram encouraging Secretary Block to request that President Reagan discuss possible sales of dairy products under Public Law 480 with Premier Zhao Ziyang of the People's Republic of China. We appreciate your continued interest and support in our combined efforts to increase exports of U.S. agricultural commodities and to further the development of markets overseas.

Since U.S. dairy products are not competitive in the world market, any export sale of U.S. dairy products would have to be subsidized in some manner.

This would be true even under the Public Law 480, Title I, concessional sales program. Dairy products are, therefore, not currently being included in such agreements. Consequently, resolution of the eligibility of China for participation in Title I would not be itself affect out ability to move dairy products to that country.

We will continue to review all possible proposals to improve our trade relationship with China including possible export of our dairy products to China.

Sincerely,

Leo V Mayer

Leo V. Mayer
Acting Administrator

Leo V. Mayer
Acting Administrator

Mr. GOLDBERG. To the Chinese?

Mr. COELHO. No; to the Department of Agriculture. The Chinese are faster than the USDA.

Mr. GOLDBERG. I mean that we do something with the Chinese.

Mr. COELHO. Yes; we presented it to the Department in May 1983, and the Agriculture Committee passed a letter of request later that year. We have had three different communications, and we have yet to have anything from the Department except an acknowledgement that they received our inquiry.

Mr. GOLDBERG. I can respond to that later.

But as far as the Department's efforts in dairy exports, we have tried everything conceivably possible.

Mr. COELHO. Except for the Chinese.

Mr. GOLDBERG. I don't know anything about the Chinese. But we completed a very large butter oil/butter proposal to the Egyptians, as you probably know. We have now supplied about 50,000 tons of dairy products under section 416 to the African Food Aid Program. We have stepped up our efforts in all of the domestic donation programs of dairy products.

Personally, I can't think of any area where we have not addressed and tried to do something about the surpluses, not only in domestic programs but in international export programs as well.

Mr. COELHO. Except for the Chinese.

You realize, I am sure, I, knowing your background, you realize China represents over 20 percent of the world's population. It seems to me that we ought to be anxious in trying to develop the relationship with them if they really are interested in purchasing some of our surplus dairy products.

I just don't understand why USDA is reluctant to move into that area. And as long as I am chairman of this subcommittee, which I will be for the next 2 years, you will hear about this a lot.

Mr. GOLDBERG. Congressman, I would suggest that part of the problem may be for displacement of other commercial sales and also the price. But I will look into the Chinese situation for you.

Mr. COELHO. We would love to hear some facts. We just don't even get that either.

Thank you, Mr. Goldberg, appreciate your testifying.

Mr. GOLDBERG. Thank you.

Mr. COELHO. Now we would like to have the next panel. Associated Milk Producers, Mid-America Dairymen, please.

Mr. Elkin, you may proceed.

STATEMENT OF IRVIN J. ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC.

Mr. ELKIN. Yes, thank you, Mr. Chairman, and members of the subcommittee. I want to thank you for this opportunity. I am Irvin Elkin, a dairy farmer from Amery, WI. I am also president of Associated Milk Producers, Inc., a dairy cooperative marketing association headquartered in San Antonio, TX.

AMPI consists of more than 25,000 dairy farmers in 20 States throughout the Central United States. Two of those 25,000 dairy farmers will be with us this morning and will also testify on the effects of the present dairy program.

I have a prepared statement which comments in detail on a number of issues and I would like to submit that for the record and present some summary comments.

Mr. COELHO. Without objection, so ordered.

Mr. ELKIN. Much attention has been focused on the agriculture credit crisis in the past few months. Now, while that issue must be dealt with for many farmers to continue operations in the next months in the process, we must not lose sight of the fact that the basic problem is not farm credit—it is inadequate farm income.

The 1985 farm bill provides the opportunity to address this.

In 1983, Congress approved the dairy compromise establishing the dairy promotion program and the milk diversion program. The promotion program is in place and operating effectively. It is a long-needed tool. And I want to take this opportunity again to thank this subcommittee for the help in both of those programs that we have at this time.

I believe the diversion program has demonstrated the effectiveness of the supply management concept. Government costs were reduced by more than $1 billion, as we have heard earlier, from the fiscal year 1983 levels.

Milk production and CCC purchases began dropping immediately with implementation of the diversion program. And I might add, that happened after 57 months of increases. There are weaknesses in the program which we feel can be corrected. The important fact is that the opportunity be seized to build on the successes of the diversion effort to provide standby authority to be used when necessary to prevent excessive expansion of milk production.

In the dairy industry we have been working through National Milk Producers Federation in an effort to develop a broadly supported policy in this direction. At its annual meeting last fall of the Milk Producers Federation, membership unanimously adopted a policy calling for such standby authority as a part of the dairy provisions of the 1985 farm bill.

AMPI considers an effective standby management program essential as part of the 1985 farm bill. And we believe, as you will hear this morning from National Milk's testimony that we have recently reached that all-important consensus.

As mentioned, such a supply balancing element would be a standby tool. It is essential that the purchase program be continued as the basic operating element of dairy price support policy.

Proposals to abandon the program ignore the basic success of the program over its 35-year history. It has served producers, processors, and consumers as well.

The experience of the past few years does not signal a failure of dairy policy. It is more reflective of the overall problems confronting agriculture.

The price support program is essential to provide the stability needed to maintain a sound dairy industry. The advances in productivity, the ability to provide milk and dairy products at steadily declining real costs rests on that stability. Abandoning this proven mechanism would leave the industry subject to wild price swings which are damaging to both the producer and the consumer.

We look forward to working with the committee in the development of effective dairy policy for the balance of this decade and beyond.

Thank you.

[The prepared statement of Mr. Elkin appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much.

Mr. ELKIN. Wayne Palla will testify next for us.

Mr. COELHO. Mr. Palla.

STATEMENT OF WAYNE PALLA, MEMBER, ASSOCIATED MILK PRODUCERS, INC.

Mr. PALLA. Thank you. My name is Wayne Palla, and I am a dairy farmer from Clovis, NM. I am a member of AMPI and serve on the Southern Region board of directors of that co-op.

I started in the dairy business in 1966 in Bakersfield, CA. In 1974, I started dairying in New Mexico, and in 1978, moved my family and California operation to Clovis.

My current operation consists of a dairy in Clovis, NM and one in Canyon, TX. I closed our Canyon facility down for the diversion program and am currently milking 700 cows in our Clovis operation.

After the diversion program my intentions are to return to the 1,100 milking cows that I was prior to the program.

I farm 2,000 acres of irrigated farmland and have a 10,000-acre ranch in operation. I am the sole proprietor of my operation and participated at the full 30-percent level in the diversion program.

I would like to discuss for a moment the diversion program and then address the supply management concept.

In 1984, I reduced my production 7.2 million pounds of milk. The reason I did was simple. I was faced with two choices in 1983, as I testified before this subcommittee. I would either have to add 150 cows or reduce 350. Because of the diversion program it was more profitable for me to reduce than to increase.

The dairymen in the diversion program have received a lot of criticism because of its so-called lack of participation. A large part of this problem is a result of the stringent rules that limited participation that were written into the bill after it left Congress.

I know of a handful of dairymen in my State that had planned to go into the program and could not get in. One of them even appealed his case all the way to Washington just to be able to participate.

These dairymen that I am speaking of would have resulted in a reduction of roughly 3,000 cows.

Second, there has been much concern over the number of heifers in the country. Once again, part of this problem is the result of our political process of compromise. When I testified we were asking for a 2-year program. We felt this was a necessity because of the very problem I am talking about.

In my own operation I held my heifers because of my facilities and ranching operation. And with a 15-month program, I only had to delay my breeding by 6 months. If it had been a 2-year program as originally intended, I would have done some things differently and delaying my breeding would have been one of them.

In my opinion, the diversion program was successful, perhaps not to the degree that some had hoped, but successful in that it did turn the corner on the production trend, it reduced Government spending by over $1 billion, and it showed that the diary industry is willing to work with a supply management plan.

I would now like to address the concept of supply management. I feel there are some basic concepts that must be incorporated into the plan in order to make it effective. First of all and most important, it is that a supply management plan be only used in a time of surplus of milk production and the cost to the Government be minimized.

Second, it must be profitable. The generation of dairymen that have survived the last 3 years are businessmen in the business of producing milk. Every decision made is done with one reason in mind, and that is to enhance the profitability of his operation. Any plan devised must make it more profitable to reduce production than to expand. If this is accomplished, you will achieve your reduction in milk.

Third, there must be two different prices for milk. One that reflects a domestic need to the Nation and one that reflects the true value of surplus. If there had been a true value placed on new surplus production 4 years ago, we would not be here today.

A producer must be able to identify his surplus production by specific price rather than any blend of all his production. If this is the case, dairymen will make the right decision.

With a plan containing these ideas, dairymen will be able to survive and produce milk for the Nation at a profitable level while the burden of cost will remain with the individuals producing the unneeded surplus.

I would urge this subcommittee to develop a supply management plan that would give us another alternative to increasing our production or getting out of the business. These are the only two options we have available to us on April 1.

Thank you for giving me the opportunity to present my views.

[The prepared statement of Mr. Palla appears at the conclusion of the hearing.]

Mr. COELHO. Mr. Horn.

STATEMENT OF MARVIN HORN, MEMBER, ASSOCIATED MILK PRODUCERS, INC.

Mr. HORN. Thank you, Mr. Chairman.

I am Marvin Horn, a dairy farmer from Boyden, IA. I am a member of Associated Milk Producers, Inc. and serve on the cooperative's corporate board of directors.

My dairy farm in northwestern Iowa is best described as a small family farm operation. My son farms with my wife and I. We have 280 acres devoted to the production of corn, oats, soybeans, and alfalfa. In addition to milking 35 cows, we have a small feedlot operation and market hogs.

The 1985 farm bill must address the income needs of farmers if we are to prevent the most devastating decline in rural America since the Depression of the 1930's.

The milk diversion program has shown that the supply management concept works. There were problems with the program that discouraged or prevented many farmers from participating. We did not participate in the program as it did not meet our particular needs.

While our dairy operation has operated at about the same level for a number of years, our production was off by as much as 25 percent for the period of 1981, the history forming period. This illustrates one of the real problems a family farm operation faces. My wife was ill and hospitalized for an extensive period that spring. As a result, it was necessary to cut the operation back for a period of time.

The other major reason for nonparticipation was that ours is a purebred herd. The program provisions barring sale of breeding stock except for slaughter or to other program participants simply did not fit our needs.

Even though we did not, or could not, participate in the program, its effectiveness has convinced me that we need to build on this experience to include a workable supply management program as standby authority in the farm bill. Such a program, as a standby operation, could more effectively control Government costs than any other recommendation advanced. It would also do more to maintain farm income than anything else.

As I indicated at the outset, farm income is a major concern that has to be addressed. Simply reducing the price support level will, eventually, result in balancing supply with demand. This will, unfortunately, be accomplished only when farmers have been driven out of business. There is no way we can be assured that the adjustments will not result in greater cutbacks than necessary. What we need in the dairy industry is stability.

Thank you.

[The prepared statement of Mr. Horn appears at the conclusion of the hearing.]

Mr. **Stenholm** [acting chairman]. Mr. Townsend.

STATEMENT OF TOM TOWNSEND, VICE PRESIDENT, MID-AMERICA DAIRYMEN

Mr. **Townsend**. Thank you, Mr. Chairman.

I am Tom Townsend, corporate senior vice president of Mid-America Dairymen. We are a dairy farm cooperative with 12,000 members in the 12 Midwestern Mississippi Valley States.

After I listened to USDA a little bit ago, it kind of reminded me of a very famous Governor in the State where I once lived. The Governor was making a talk one day, and after that talk reporters came up to him and asked him some questions. And he answered the questions very forthright. This one reporter looked a little puzzled, and he said, Governor, I hate to mention this, but yesterday you made a statement on this same subject and it was just the opposite of what you said today.

The Governor came back and said, that's right, son, just because I said it doesn't make it so.

I am afraid maybe that we have some people in USDA that may be a little bit far removed from what actually transpires on the farm and what incentives it takes to move farmers either forward or backward, or upward or down.

The abundance that we have in the United States is a blessing for society but, of course, it's a curse for farm income. The diversion program has worked, and it has worked by any measure, I think, that realistically rational people could evaluate. Production is down and consumption is up, and Government costs are down, and Government purchases are down. And there has been little or no cost to the taxpayer or any adverse effect on—or very little, don't know of any, but maybe very little—adverse effect on any other segment of our society.

I think one of the key questions when we are talking about this diversion program and why it was effective, and what we want to look at in terms of any future program, whether it be dairy or general farm, is where is the incentive to produce? Why can't we take price? Why can't price be the factor that is going to adjust production?

I would suggest to you that is something that we all know, but we need to have repeated quite often, and that is, that general economics and agriculture economics are not the same. Generally, we don't ask a factory to produce at full capacity, because there is no incentive. You would say why in the world would any factory, be it large or small, produce at total capacity if the demand for the products that they were producing was something less than total capacity.

The same would be true with the retail women's ready-to-wear stores, as an example, on the street. We don't ask that woman's ready-to-wear store to carry a full line of all the products that could be possibly purchased, or even to stock their shelves full on every day of the week. We only ask that person to carry the stock that she thinks, or he thinks, that they can sell at a reasonable price to the consumers in her community.

We don't do the same with agriculture. And the reason we don't do the same in agriculture and why agriculture is different is a couple of things. One is it is a perishable commodity. But the main one is that there is no single farmer in any commodity produced in agriculture that has enough control over the supply to influence the price.

So, the only incentive that an individual farmer—and those are the people that make production decisions, it's not USDA, it's not me, it's not this subcommittee, it's individual farmers that make decisions whether to produce or not to produce. And their decisions are made on the same basis of any other rational individual as to how much money I can make for that production.

And the only rational decision they can make, when they look at price—because their production can't influence price—is to produce as much as you can on the land that you got. And that's what the decision is to be made before this subcommittee and before the Agriculture Committee, is to have some type of incentive system whereby farmers can make rational decisions on their farm as to how much of the commodity to produce for the demands of the market.

I repeat, there is no other segment of our society that asks the manufacturer to produce unlimited quantities—only in agriculture.

I hope that as you are developing future programs—and we look forward to working with you in developing future programs—for this subcommittee and the full Ag Committee, that we develop a realistic dairy and agriculture program that provides the proper incentive for farmers to adjust their production to the consumer or the market needs.

Thank you very much.

Mr. **Stenholm**. Thank you, Mr. Townsend.

Mr. Sipple.

STATEMENT OF GERALD SIPPLE, VICE PRESIDENT, MID-AMERICA DAIRYMEN

Mr. **Sipple**. Thank you.

My name is Gerald Sipple. I am a dairy farmer from Menomonie, WI. We have a family farm. I farm with my son. And I am also from Congressman Gunderson's district, which we are kind of proud—I guess is the largest dairy district in the United States.

I have some statistics here, USDA statistics, on net farm income. I will submit them to you. I don't want to go over them again.

But in conclusion on this, I am not sure credit over a long period of time will answer, in my judgment—I think we need a better farm bill to have a more healthy dairy industry in the future.

Also, if this country is to maintain its strong agriculture base, some form of credit relief must be forthcoming. In the absence of that relief, the financial crisis will worsen and an increasing number of farm bankruptcies will occur.

Dairy farmers are not excluded from financial crisis. Dairy farmers recognize that even in the face of financial crisis they are now experiencing, they must curtail the production of their product and are reducing milk production.

Extreme caution must be exercised in adjustments and changes made in the dairy programs in order for those adjustments and changes to encourage farmers to adjust their production to domestic demand without contributing to the financial crisis dairy farmers find themselves in.

Dairy farmers are not special, but dairy farming is different from the rest of agriculture. It is different because dairy farmers produce a very perishable product whch requires large and specialized capital expenditures to produce. These large specialized capital expenditures need the assurance of payback over time. For that reason, price stability is not only needed but essential.

There appears there is an inherent instability in prices in the dairy industry because of the perishable nature of milk and its products and the temporary imbalances in supply and demand that occur because the seasonal highs in milk production do not correspond to the seasonal highs in milk demand. Wide fluctuation in prices are not good for farmers or consumers, and stability in prices benefits both groups. New dairy programs or changes in existing dairy programs must continue to provide long-term price stability.

The dairy program adopted as part of the 1985 farm bill should provide an economic incentive for dairy farmers to reduce their milk production and a penalty for those who do not. The present milk diversion program provided both of those ingredients and that plan has worked. The paid diversion program cut Government expenditures by $1.2 billion in 1984 and reduced CCC purchases by more than 8 billion pounds.

The administration of the diversion plan was not as complicated as some origially feared, and in fact it has worked quite smoothly. It was implemented effectively within 30 days after enactment and there has been almost total compliance with the regulations. Payments to participating dairy farmers have been made ontime and in accordance with the regulations and participating dairy farmers have generally complied with the letter and intent of the law. Inclusion of a similar program in new legislation would be very desirable.

The incentive/penalty provision of the program would become active when the supply-demand relationship projects significant reductions in price. For example, if projections of supply-demand resulted in CCC purchases which would call for a price reduction of over 75 cents per hundredweight, the paid diversion program would be triggered and dairy farmers would be offered an option to reduce production and receive payment for that reduction. The diversion plan would be funded by all dairy farmers in the Nation, which would serve as a penalty for those not participating in the diversion feature of the program.

Dairy farmer prices should continue to be changed on the basis of an economic mover. It is immaterial whether this mover be called a parity formula or an economic mover. The important thing is that the price dairy farmers receive for their product should change as their production costs change. Dairy farmers do not want target prices or loan rates with deficiency payments. The present system of moving prices with economic indicators has worked well since 1949, except for the brief period preceding the paid diversion program, and an economic mover coupled with a diversion/penalty program would be a desirable feature in new dairy legislation.

We support the continuation of Federal Milk Marketing Orders and we must have effective import controls to protect domestic dairy prices and domestic dairy farmers from destructive subsidized foreign competition.

The dairy industry has pursued a program of tailoring domestic production to domestic markets. We have not geared out production for the export market. Recognizing our commitment to the domestic market, dairy farmers have long supported voluntary contributions to promotion and advertising programs along with research and nutrition education. The commitment to this activity continues under the Dairy and Tobacco Adjustment Act of 1983. Mid-Am continues to support this program and believes it is working as Congress intended.

Thank you for your time.

[The prepared statement of Mr. Sipple appears at the conclusion of the hearing.]

Mr. **Stenholm**. Mr. Jeffords.

Mr. **Jeffords**. Thank you, Mr. Chairman.

First of all, Mr. Sipple, I would like to point out that Mr. Gunderson is not only proud of having the largest dairy district, but he is so energetic and vigorous, that I sometimes have the feeling he is going to work until it is the only dairy district in the country. But he does a good job for you.

I, first of all, want to thank you all for your help in designing the Dairy Diversion Program. Two years ago, I know, I almost met daily with some of you, and we spent a lot of time together. We had a lot of criticism but, fortunately, things worked out well for us.

I must say, that I am surprised the administration does not embrace and enthusiastically talk about the Dairy Diversion Program. To my knowledge, it is the only one they have got that worked, and a lot of that is due to your excellent work.

I have a couple of questions. First of all, one of the recommendations of the administration, which we haven't quite seen yet, would do away with the CCC purchase program. I wondered, and briefly, if you might, if you would each comment as to whether or not you think that is a good idea. That shouldn't tax anyone too much, I don't think.

Mr. **Townsend**. No; it is not a good idea.

Mr. **Jeffords**. Does everyone agree with that? OK, fine.

May the record show that everyone enthusiastically shook their heads yes, that they agree it is a bad idea.

Mr. **Elkin**. If I could, Mr. Jeffords.

Mr. **Jeffords**. Certainly.

Mr. **Elkin**. A week ago, testimony on the Senate side also showed that—I don't know of anyone that supports doing away with the purchase program. Testimony from the industry, testimony from the consumers, said that that was an important part of the program. They may argue about the levels of purchases and the levels of prices, but the continuation of the purchase program, I don't find anyone, other than the administration, that's favoring that. It would be disastrous for our dairy industry.

Mr. **Jeffords**. The next one, which is an important question, but one which may not be quite as easy to answer—under the present program, as you all know, on July 1, that most likely the administration will reduce the support price to $11.60. My guess is that if things go the way I expect they will, we may end up probably extending all farm programs in some form or other until next year.

So I would like to know what your feelings are what the impact would be in your particular areas of an $11.60 price for the indefinite future.

Mr. **Palla**. I think in our area, which is the Southwest, and considered growing as far as milk production goes, most of the expansion that was going to occur in that area has occurred during the diversion program. Most everybody in our area that was going to expand, did it—the reason they didn't go in the diversion program was because they were in the process of expansion. Had the dates, the calendar year 1983 been included as an option as far as signup to that program, we would have probably had 50 to 60 percent more participation in our area.

Those people, I think, are close to capacity. There will be some, if they can get financing, will add cows just out of necessity. But I would venture, say that would be the case more than 10 percent.

Mr. **Jeffords**. Thank you.

Mr. **Sipple**. I guess I would say if and when we do come up with something, if we got a longer term projection for a program, I am sure the signup would be better than this 15-month. Although from my area of Wisconsin, we didn't have as big a signup maybe as some areas, the shortness of it hurt the percentage of signup.

Mr. **Jeffords**. I understand that. My question, though, is what is going to be the impact of an $11.60 support price for the indefinite future in your area?

Mr. **Sipple**. It is going to be tough. There are a lot of farmers that are responding by, I guess, not expansion or not spending the dollars. There just isn't the net profit for a lot of farmers to use for—I guess even expansion, there isn't money available for quite a few.

Mr. **Jeffords**. Thank you.

Mr. **Townsend**. One of the things, Jim, that it makes a whole lot of difference if you can tell us what feed grain prices are going to be. You know, dairy is one of the largest consumers of grain. And when you take the livestock industry, that's the biggest grain consumer we have. And if you can tell us what the price of grain is going to be, we can give you some idea of what milk production is going to do.

But $11.60 is $1.50 less than milk price supports were last year, and that's a pretty good cut in income. And the initial reaction will be, if feed grain prices are high, is that we will probably expand production a little bit, but then it will go down. There is no question over a long period of time, low milk prices will have an effect on production, and that effect will be to go down.

Now, short range, the answer is different. But it is too difficult to say what $11.60 will do by itself.

Mr. **Horn**. In my area—I live in northwest Iowa—we have had three bank failures in the last 2 months. I think we may see a short-term increase but we are short on long-term financing. So I think that we have got other problems in northwest Iowa besides this.

Mr. **Jeffords**. Thank you.

Mr. **Elkin**. I would just comment that I agree with Tom, that price will work, and we have price that worked now for a little over 4 years, and it is starting to pinch, there is no question about it.

The other problem, and it was discussed earlier, is, you know, the fact that these price cuts are no doubt coming, as business people we do try to turn the inventories, I think—in AMPI in total, a cut of 50 cents, if we keep normal inventories, probably runs awfully close to $1 billion, just from that 50-cent cut.

I found out, being in the middle of Wisconsin, here last week, that we have small cheese plants that have never, never sold to the Government who are being forced to sell because they can't carry that inventory. The big buyers that they rely on are not buying.

They just have quit. So then they are faced with losing that inventory drop—maybe a small amount of cheese in a small cheese plant, but they can't take that bump so they are selling to the Government. And then they haven't received the money so they can pay the farmers, and that's causing another problem.

But we have caused some situations that just aren't good because of these cuts coming up.

Mr. **Stenholm**. Mr. Volkmer.

Mr. **Volkmer**. I am sorry I wasn't here for the testimony. If this has been covered, just say so and let it go.

As I see the situation that is presently existing today with the diversion program going off and with the price support dropping, as I understand it, there's quite a few heifers out there as replacement.

Do you anticipate that, say, by the end of this year, that we will have increased production from where we are right now?

Mr. **Townsend**. Yes.

Mr. **Volkmer**. Does anybody disagree?

Mr. **Palla**. I don't think you have left us any other choice, have you?

Mr. **Volkmer**. No, that's what, I mean——

Mr. **Townsend**. There's no other incentive.

Mr. **Volkmer**. Right. Especially if, let's say, if feed prices stay about where they are now, not much change. And we will have probably quite a few smaller dairy farmers, the ones under 50, they are probably in difficulty.

Mr. **Townsend**. Congressman, I think a lot of people fail to realize that we are talking about the farm crisis and the income crisis, and it darn sure is there, as you very well know, in your own district.

Mr. **Volkmer**. Right.

Mr. **Townsend**. But there was about—the best information that we have had and from USDA, indicates that there are about 2 percent of the farmers that were forced out of business for one reason or other, last year. Now, what people fail to realize is that the largest single category of producers forced out of business last year were dairy farmers at 3.9 percent. The next highest category of farmers forced out of business last year were cow/calf operators at 3.1 percent.

Mr. **Volkmer**. I think that these are some things that I don't believe the administration—either the administration isn't looking at it and doesn't realize the situation, or I come to the other conclusion as I am beginning concluding about most of agriculture the way this administration looks at it is it just doesn't care. That it is going to let it go, and supposedly only the efficient, so-called efficient operators are going to still be here 4 or 5 years from now.

I personally feel that this is just the opposite way we should go in American agriculture in the United States. So we are willing to work with you and make sure that we have a stable dairy program along with stable agriculture throughout the United States.

Mr. **Palla**. Congressman, I would just like to make one point, and perfectly clear. You mentioned that the dairies, say, under 50 head, would be in trouble. Small dairies do not have a corner on the market about being in trouble.

Mr. VOLKMER. I realize that, but I think that they would be, you know, have a more adverse situation maybe a little earlier, faster. Maybe I'm wrong.

Mr. PALLA. The dairies in our area that are, and there are several in chapter 11, and a couple going to be, are all the larger operations.

Mr. VOLKMER. Larger.

Do they usually buy their feed, though? Have they been buying their feed?

Mr. PALLA. Most dairies in our area buy pretty much 100 pecent of their feed.

Mr. VOLKMER. All right. Thank you, Mr. Chairman.

Mr. STENHOLM. Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman.

I want to issue a special welcome to not one but two constituents of mine that are down there, and I think it says something for western Wisconsin. We are not only the leading dairy production district in the country but we are trying to take over the leadership of most dairy organizations in the country, too. So that's the best way we know of to get our thoughts enacted, and I hope the rest of you don't catch on.

I would like to ask a general question, a philosophical question. What ought to be the role of a dairy policy in a farm bill? Ought it be the guarantee and adequate supply of milk? Ought it be to guarantee it at a reasonable price? Ought it be to, from a sociological perspective, to provide support to "the traditional family farm" structure of dairy agriculture? Ought it be to promote exports?

Generally, philosophically, what ought to be the role of a farm bill as it relates to dairy—its goal?

Mr. ELKIN. I will attempt that.

I think that the record speaks for itself. And what the dairy programs have done for both the stability for producers, because that's needed; for adequate supplies, and at reasonable prices. The consumers are very important to us, always have been. Once we produce it, we haven't done anything until we have had somebody buy it.

I think that's the proper role. I think what we will be proposing, what you will be hearing later, is some minimal Government involvement. I think we understand the budget pressures. And that in order to have that stability, we need to accept more responsibility, more financial responsibility. But to do that we need some tools where we can kind of police ourselves.

I think it was mentioned earlier, if I cut my production individually, that doesn't do a heck of a lot for the industry. So I am more apt to increase it. We need the tools. That's what we are coming here saying. Either because of other factors outside of agriculture, or inside of agriculture, our production starts to come up—we need some type of mechanism on a standby basis where we can kind of call a halt to that. But much earlier than the last time—you know, not wait until we get 16 or 17 billion pounds of production purchased by the Government, costs running 2.6, 2.7. But putting a lid, so to speak, a cost containment on our program. And I think that is the only way we can survive in that.

The day that Congress quits worrying about the consumers, we won't have a dairy bill. The dairy program is not for dairy farmers only. It is for the other 97 or 98 percent of the population called consumers. And it has worked in their benefit, and I think they recognize it.

Mr. **Gunderson**. Any other comments on that?

Mr. **Sipple**. I guess I agree with Irv. I guess the testimony earlier here today proved the fact that it didn't cost, you know, the American taxpayer, which a lot of programs get in trouble over, any money. I think we do need the Government involvement some. I don't think we can go out there totally on ourself as an industry. At least, we need the legislative tools for us to work with, and I think we will come up with a pretty low cost program.

I guess what scares me is I look out in my area of Wisconsin—and it is not only the farmer that I see being devastated, it's the bankers were mentioned, it's ag-related businesses, and it practically gets right down to the real fiber of schools and churches and everything.

If we continually go by the fittest survive, I think we are going to devastate some other areas of society that we probably don't want.

Mr. **Gunderson**. I would like to ask you a very difficult question. This committee has preached in the last couple of years that we have got to have consistency among commodities so to prevent switching. The administration has indicated in their presentation that they are moving toward consistency among all commodities support programs.

I clearly understand why you all oppose an immediate switch to target prices. But if the Department is adamant about the target price concept and consistency among all commodities and if we make that transition down the road, what are some of the major concerns that you have that we would have to consider as a committee to allow that change to occur in your best interest?

Mr. **Elkin**. The concern that we have there, and I think it was pointed out earlier, that we view the domestic market as our market. Whereas, the wheat people, the corn people, you know, that—what, 3 out of every 5 acres, 2 out of every 5, whatever figure, is produced for export. So the concern that we have is to protect our domestic industry.

The thrust of the program that the administration has proposed is zeroing in on one aspect of the dairy program, and that's the purchase program. That's the major impediment from going to the trade tables and eliminating essentially all quotas and section 22 would fall quickly after that. Section 22, in my estimation, protects the Government from buying all the products of the world as much or maybe more so, than it protects the dairy industry.

So we cannot have the type of domestic dairy industry we have here which, we have pointed out many times, has worked well and has served the consumer well, unless we maintain that type of program for dairy.

Mr. **Gunderson**. Go ahead, Mr. Townsend.

Mr. **Townsend**. I think you have to have some kind of broad guidelines in terms of policy issues on all farm programs. Again, if we can remember who makes production decisions, and upon what kind of a basis they make those production decisions, and then have the farm program either do one of two things—either guarantee minimum incomes, which we have kind of done in the past, that's somewhere acceptable to all levels of society; or else give us the tools that we have said so often here already this morning, give us the tools, whether it's a two-tiered pricing system which may work in some commodities, very, very well, some method to control either the production or the marketing of the product domestically or foreign. There are lots of things that we can do.

I think if you will give agricultural groups and commodities the tools to determine their own destiny, that they will, in fact, develop their own programs around those tools and make it a very low-cost or a no-cost system to the American taxpayer.

Now, they have to have those tools and develop those programs within some degree of fairness to all the rest of society, and that means that you have got to work all the commodities together in terms of an overall fairness rule. But generally, recognize where the production decisions are made and give them the tools to make decisions on production, how much is going to be produced for the domestic and the foreign markets.

Mr. GUNDERSON. Thank you. Thank you, Mr. Chairman.

Mr. STENHOLM. Mr. Daschle.

Mr. DASCHLE. Thank you, Mr. Chairman.

I want to, for the record, make sure that we clearly enunciate one of the reasons why the signup under the diversion program was as low as it was. We have touched on it, but I would hope that you might just elaborate very briefly. I have a couple of other questions I want to pursue as well.

With regard to the regulations and the disincentive that there was from the White House, from this administration, with regard to this program, I think we want to make sure everyone understands that this administration was opposed to it, it fought us on it, and said that it was going to take a 20-mule train wagon to pull them into this dairy program in the first place. And that is exactly what has happened.

But what regulatory problems did you encounter as you tried to signup for the program when we started the diversion?

Mr. PALLA. We didn't run into any regulatory problems. I think the rules—first of all, I believe the history period that was used went back too far. Had you used a current year, say, 1982 and 1983, brought it up to more current production, you would have a much larger participation.

Second, in our area the thing that kept a lot of people out was the cross compliance. We have got a lot of multiple dairy investor type people in our area—that one investor is in about three dairies that milk a total of about 5,000 cows. They had just purchased one in Colorado about a month before the rules and regs were wrote and that kept him from putting his other ones in. I think there is going to have to be something done about the cross compliance.

Then, third, it kept anybody with registered cattle and breeding sales out of it.

Mr. DASCHLE. OK.

Mr. SIPPLE. I guess in my area I would say the duration of the program, the 15-month, was the biggest deterrent as far as signup. I guess as far as how the system worked, with the rules that had to work, I guess I would have to admit it worked—I was kind of apprehensive of the ASC offices being able to handle it. I guess as far as I could see, they handled it real well without many problems.

Mr. **Daschle**. I have got three quick questions in my short amount of time.

The first, I am interested in the Department's position that we really have to have a consensus. I am wondering if you can recall having been called to the Department to be consulted and ultimately to be considered—your positions, considered before they released their proposal.

Can you elaborate on that?

Mr. **Elkin**. I will just comment on some of the testimony that came out earlier.

Secretary Block did have a "listing session," and he traveled around the United States. I testified at his listing session in Chicago. Although I will have to admit that some testimony—and this was broad testimony, not only on dairy—but some testimony, some, did center on free market doing away with all Government programs. However, that was no way the consensus.

So I think Secretary Block has a way or habit of going listening to people, hearing one person he agrees with, and going back and says that what the agriculture industry wants.

But, yes, I did have opportunity—there was no way that a consensus, at least in that particular session, and probably 30 or 40 people testified, that that was the consensus that we want to do away with all programs.

Mr. **Daschle**. I didn't make my question very clear.

I am saying that once they put the proposal together, did they say, all right, come on in, we want to talk to you about this thing. And if you think that it will work, we will propose it.

Did they present any opportunity for you to do that?

Mr. **Elkin**. No.

Mr. **Daschle**. OK.

Let me ask you this: What would be, in your mind, the effect of a $10,000 payment limitation?

Mr. **Horn**. Wayne is the best one to comment on that.

Mr. **Palla**. I think this whole payment limitation, I think the entire Government structure of the $50,000 limitation is one of the biggest limiting factors of why their programs aren't working.

You have got your large farms that cannot participate. And the $50,000 was put on back in the late fifties, early sixties, and if you apply an inflation factor, it puts it around $250,000 today. And to go backward on it, you might as well do without it, because that $10,000 is a ridiculous amount for anybody's agricultural operation unless you are a hobby farmer, and then it is just gravy.

Mr. **Townsend**. $10,000 is a supplemental income payment. It has nothing to do with trying to regulate production or supply, and it won't do it. It is ineffective, just forget it.

Mr. **Daschle**. That is just what I thought.

Now, one last question.

A free market, which is what the administration says is their goal, is laudable, but the question is whether it can assume a fair market, and whether there's really a fair market in the international marketplace today. I think that's the big question, whether you are going to be pitted not only against a foreign dairy person, but against his government, and against environmental considerations that are totally different than our own.

But I would like to have you elaborate in the very brief time I have left, on what you perceive to be the international market today. Is it fair?

Mr. **Townsend**. You could almost say that you take Congressman Gunderson's district milk production, and it takes a little more than that, but not much more than his production in his district is the total amount of international sales of milk and milk products. It is a very, very thin market. It is highly subjected to other governmental policies and programs, some of which have no relationship to even agriculture, let alone dairy. And it is not either a free or a fair market as far as dairy products are concerned.

Mr. **Elkin**. My comment would be that when you talk about free trade, virtually every country that has anything to export or does the importing, has much, much, much more government involvement in their agriculture than ours does. Even though we think, you know, we are talking about it—but they have much more involvement. They will do all kinds of things to move the product.

So many things that impact us—talking about free trade—other than agriculture as such, I sit on the newly formed Export and Trade Commission. And we just chase and chase and chase, and the strong dollar just keeps coming up, coming up. And all we are told by Secretary Amstutz recently is we have got to get the price of grain down to where you can export it. You are talking cutting it another 30 percent, when people are going broke.

I don't see how, with the monetary policies and the economic situations throughout the world, I don't see how that is ever achievable.

Mr. **Sipple**. I guess it was mentioned before—in most countries in the world, their population has gone hungry in some period of the time. And I think that's why they protect their farmers probably more than the average American is willing to. And I think that's why you run into some of these inadequacies of subsidization and stuff. That's why I feel a little reluctant that a free market will work for us.

Mr. **Elkin**. Is there a free market in anything? I mean, is there such an animal, because if we are going to compete in a free market, should we be forced to pay a minimum wage? We have to pay half of the social security. Should we pay unemployment insurance? Should we do a lot of things that we are forced to do?

So, you can't have free trade on one end and restricts you on a lot of other deals.

Mr. **Daschle**. I want to thank you all for your testimony and the answers to my questions.

Mr. **Stenholm**. Mr. Stangeland.

Mr. **Stangeland**. Mr. Elkin, how much milk does AMPI handle?

Mr. **Elkin**. How much milk?

Mr. **Stangeland**. Yes.

Mr. **Elkin**. About 15 billion pounds.

Mr. **Stangeland**. And how much did your handle go down in the period of the diversion?

Mr. **Elkin**. Roughly 1 billion pounds.

Mr. **STANGELAND**. So it went down about 8 percent.

Mr. **ELKIN**. Yes, sir.

Mr. **STANGELAND**. How about Mid-Am?

Mr. **TOWNSEND**. We went down about 10 percent. We handle roughly about 6 billion pounds of milk.

Mr. **STANGELAND**. What percent of your handle goes into fluid, Mr. Elkin, what goes into processing?

Mr. **ELKIN**. Of course, we range from heavy fluid markets in the South to manufacturing in the North. Pretty close to 50 percent.

Mr. **STANGELAND**. About 50–50. And Mid-Am?

Mr. **TOWNSEND**. Roughly 50–50.

Mr. **STANGELAND**. Do you gentlemen see any advantage when we draft this 1985 farm bill to increasing the Federal quality standards and paying based on quality—a little more emphasis on payment on quality?

Mr. **ELKIN**. We do that in many of our areas. I don't know if I would—I guess I would have to look through whether there would be any advantage to doing that. You mean, talking about a law, so to speak, on the quality?

Mr. **STANGELAND**. Yes, a national Federal quality standard.

Mr. **ELKIN**. Certainly we favor quality. I don't see any way that we would oppose it.

Mr. **TOWNSEND**. I think you are talking specifically about one of the quality standards, and that's solids-not-fat standards similar to California's. We are voting delegates. Last year, at our annual meeting in Minneapolis and our meeting next week in Minneapolis, I would guess we will reconfirm a policy decision to support increasing the solids not fat and having those standards uniform throughout the Nation. And if we can't get it nationally, to do it in individual States where Mid-Am has members.

Mr. **STANGELAND**. Is there a way that we can write a dairy program that treats everyone equally when you consider that, say, Washington State at the top end of the scale, averages 16,120 pounds per cow milk, and Kentucky at the bottom—and this is only in 15 States—but Kentucky at the bottom averages 9,975 per pounds per cow, about a 6,000 pound per cow production differential?

Mr. **SIPPLE**. No, I don't feel that we could write a bill that would cover everybody. And that gets into probably more than just production on the farm.

Mr. **STANGELAND**. That gets into the question of efficiency that we aren't going to be able to write a law that is going to save every dairy farmer in the country.

Mr. **SIPPLE**. I think that's true.

Mr. **ELKIN**. If I could comment, Congressman Stangeland. We can talk and we can argue and we can come to this point of view, and that point of view, but I think we all recognize if we are going to have a Government program, there will be one dairy bill that we all deal with, whether in Florida, California, Wisconsin, or Washington.

There are many reasons why you see quite a variation in production. A lot of it is climate, a lot of it is the type of feed they are used to in those areas. And a lot of it is less input, less output, you know. It may not be that much, not that much difference. Obviously, they are still in business under the same set of rules.

But there will be one bill. And I know that you move cows from one section of the country to another, sometimes they will go up in production, sometimes they will go down. And a lot of it has to do with the climate, they way they are handled, and the way they are fed.

Mr. STANGELAND. I understand that there's a point of diminishing return as far as the volume of production is not necessarily the indicator of efficiency, and I understand that.

Just one last question. It has been allegedly—and I am a full supporter of the dairy price support program we have had in the past and hope that we can put together some kind of a structure in the future that assures dairy farmers of the ability to go out there and make a profit. But it has been alleged that the price support system that we have known for a good number of years has not required processors to be aggressive marketers, the feeling being that you buy a certain volume of milk, you put as much of that milk into fluid milk as you can move in the market. Then you put the balance into manufactured milk, move as much of that in the market. And whatever you can't move in the market, you sell to the Government.

Is that an unfair allegation? You might want to do this for the record in the future, relate to us the size of your marketing force and some of your marketing techniques to be pushing milk for the dairy producer.

But is that an unfair allegation?

Mr. ELKIN. Yes, I think it is an unfair allegation. And all we need to understand is totally understand the purchase program and how the Government administers that program.

I think too many times we think that the Government mandates a price that must be paid for milk, and that is not true. The Government, on a given day, establishes what they will pay for butter, powder, and cheese, which establishes the price in the country.

So what they say is we stand ready to pay that for any product that will not clear the market at that price. So, really, what you are doing is testing that market. And there is no question then that if more money can be gotten from the marketplace, which happened last fall, that's why the product didn't go to the Government, that's where it will go.

However, if you do not take advantage or use that vehicle, the Government says to establish a price, that price can sink to any level in the marketplace because you are then putting the surplus out into the market. So I think it's an unfair allegation.

As far as marketing, I can't quote just exactly what our marketing staff—but we had people all over the United States, California, and we market in the Northeast. And I assure you that this free enterprise system we have, if the markets are there we will find them.

Mr. SIPPLE. I guess we do have the legislation to work with now with our national promotion board, and I guess this would be an arm of actually the dairy farmers that are trying to sell their own product and do themselves some good.

Mr. STANGELAND. Thank you, gentlemen.

Mr. STENHOLM. Mr. Jones.

Mr. JONES of Tennessee. Thank you very much, Mr. Chairman. Mr. Chairman, I have no questions to direct to this distinguished group but I do want to congratulate Associated Milk Producers and Mid-America Dairymen for providing us with some of the best information that's available anywhere in the country when it comes to the facts about the needs of milk producers.

It looks like now that we are back to where we were about 2 years ago. This all may have to be done over again. It doesn't stick always. But I think we are right. And I think you have been right. I think that the time may have come when we are going to have to get to the job again and see to it that not only the dairymen of this country prevail and have a fair income, and that we keep milk on the tables of this country and in the stores for the children, and for those people who need it in the nursing homes and places of that sort. And it's up to you to do it. You will do it if you are given a chance.

I want to applaud each of you for being here and for the good job that you have done through the years.

Mr. Chairman, that's all. Thank you.

Mr. STENHOLM. Mr. English.

Mr. ENGLISH. Thank you very much, Mr. Chairman.

Mr. Palla, you made a point and Mr. Daschle came back and hit it, and I want to underscore it a couple three more times because I think it is really very important.

There are really two aspects to a successful operation of a farm bill. One, of course, is the legislation as it is written. And the other is the manner in which it is administered. If those rules and regulations are written in such a way to make it difficult for a program to work, it is going to be difficult to work. And from the testimony that you gave earlier, I think one could conclude perhaps the regulations were written in such a way not to encourage participation.

I know Mr. Goldberg came before this committee earlier in the last few days—in fact, I take it back, I guess it has been 2 or 3 weeks ago—and we were talking about a little provision that is popular down in our part of the country with regard to the laying of set-asides on wheat acreage. I asked him why we didn't just go ahead and do that, the House of Representatives included it in its farm credit crisis bill. He said, well, it increased the cost, increased the cost of the program, which didn't really make a whole lot of sense to me, I didn't understand that.

We got into elaborating, and basically what it came down to, he said, well, it increased the participation in the program and, therefore, it increased the cost, which would lead one to believe the objective is to discourage people from participating, not to encourage them to participate.

So I think in looking at the diversion program, and looking at the fact that we had 20 percent participation, I think one has to look to those rules and regulations in the manner in which the program was being administered as to whether people were being encouraged to participate or whether they were being discouraged to participate. And from what you were saying, it sounds like that there were some other efforts made to discourage participation.

Would you elaborate on that just a little bit?

Mr. **Palla**. I agree with you 100 percent. I testified before this committee on the diversion program and stated what I was going to do, which I did, forgot the bill.

I think from the inception of the plan, the administration has been against it because of ideology, rather than actual workings and facts of the program. I think, personally, they were afraid of a very high participation in the program and, therefore, were very strict as far as keeping it contained.

I question the figures a little bit. They showed New Mexico as having 1,600 dairies. According to the USDA standards, the way they counted dairies in New Mexico, if you had one milk cow in your back yard, you were considered a dairy. We had 36 people participated in the program. We have only got 156 dairies in the whole State selling milk. But they showed 36 participants out of 1,600 dairies.

So I really question the validity of a lot of the figures they have, too.

Mr. **English**. I think you are not alone in raising those questions. I think that's correct.

That troubles me a lot, particularly about the manner in which these programs are looked at, and particularly about our friends in the media. They seem to forget this aspect of it, that there are really two aspects of legislation. One is the actual writing of the bill and what you include in that bill, or what you don't include in that bill. And then what the administration does when it actually carries that legislation out, the rules and regulations in a manner in which were they trying to make the legislation work, or were they trying to prevent it from working.

I think that's something that perhaps even in this committee, Mr. Chairman, we don't focus on often enough, is this question of separation, you know, is it the bill that is not working? Or is it the fact that the administration doesn't want it to work and trying to prevent it from working?

Mr. **Palla**. Maybe I am somewhat confused all the time. But a plan in agriculture, as long-term industry as agriculture is, can, in a 15-month period cut Government expenditures by $1 billion out of $2½ billion, I haven't seen that kind of progress in anything else in the budget. And I would think for them to say that hasn't worked, I really can't follow their logic at all. It hasn't cost anybody anything. It saved $1 billion of Government money. And then for them to say it hasn't worked because it is not the free market in process, there is no free market anywhere anymore.

Mr. **English**. That is exactly the point. And, of course, we are running into that just not in the dairy program but in every farm program we have got. Every single one, they say, now it doesn't work.

The question is in my mind is it because the administration doesn't want it to work, they have been preventing it from working, they are doing their best to keep it from working. It looks like here in this program we have been successful in spite of the Department.

Mr. **Elkin**. Congressman, I didn't get a chance to comment when Congressman Daschle asked that question, but I think it's very important—is the negative aspect we heard from the USDA as to why it didn't work.

I think we had to view this as a pilot program. We had a very short signup period. We were disappointed that it wasn't a higher signup. But I started to analyze it—I was kind of proud of the dairy farmers that did go into this program. Like I say, they didn't have very much time to think about it. The rules seem to be changing right up until the last day.

We are all kind of neighbor watchers, and some of the leading farmers do things and the rest say maybe I had better look at it. And I think that started to happen about the time at the program end. Within 30 days we had our annual meeting, and we had pressure. I had pressure like you wouldn't believe, to come back out here and get it opened up again, because I think a lot of people started to realize, hey, I missed the boat.

And I, in no way, was going to come back out here to you again because we had so many critics of the plan. I said, we will lose the whole thing. We want to see if it will work, even though it wasn't as—and I had unbelievable pressure to reopen, go out here and get it opened up again.

I am pretty proud of the fact that we got the signup that we did on balance.

Mr. **English**. Do you feel like it was in spite of the administration?

Mr. **Elkin**. I absolutely think so, yes.

Mr. **Townsend**. I am going to disagree just a slight bit with my colleagues.

The shortness of the signup period and the change in the rules was definitely interfered with the signup. But I think if you look at the dairy cooperatives in all honesty, and who was out there actually supporting them—and Mid-America and the AMPI happened to be two that were supporting the signup and diversion payment very strongly—that I think you will find probably about twice the signup as you found with those who were not supporting the signup.

In most of our area, the local ASCS offices did a very fine job. The local people worked with us and the implementation at the State and local level was very good. Now, there were some companies, private and cooperative, that opposed the bill. There were some, for various reasons, and some we don't know why, and in some areas I am sure there was probably some USDA officials that made some comments that were not overly popular or progressive or supportive.

But generally, the local and the State people in the ASC offices did a very fine job in our area.

Mr. **English**. I would agree, Mr. Townsend. I have no doubt about the local folks. The question is, the people here in Washington, DC, over there in the Secretary's office, that's where the trouble is.

Mr. **Palla**. I would like to, so there would be no misunderstanding of my statement, our local ASC and State ASC organizations really did a whale of a job. They had the informational meetings and helped people sign up and answer questions. People on the local level, at least in our State, did an outstanding job.

Mr. **English**. I agree. I have no complaints about the locals. But up here in Washington, DC, over in the Department of Agriculture, that's a whole different ball game.

Mr. Sipple, do you have a question?

Mr. **Sipple**. I was just going to agree with that. I know in my area, if you had the right information and the right documents, you would go in the ASC office and come out with your check the same day. They really have done a great job.

Mr. **English**. Thank you, Mr. Chairman.

Mr. **Stenholm**. Mr. Rose.

Mr. **Rose**. Thank you, Mr. Chairman.

I have seen you all up here many, many times, and always enjoy seeing you and hearing your testimony.

I want to compliment you for being what I think is the most well organized commodity that we have in agriculture. The job you have done with your membership, getting them involved in the process of setting policy, I think is a fantastic one. And you folks, your two organizations, have been real leaders in that.

I am constantly impressed and amazed at how well dairy farmers know what is going on in Washington, and know the importance of communication with their elected officials. We don't have that kind of participation in any other commodity. I will talk out of school. I tell my peanut farmers, and I am chairman of the Tobacco and Peanuts Subcommittee, I say, if you all could just get your members involved like the dairy cooperative members are involved.

Tobacco farmers are awful. Bless their hearts, I love them to death. I work my soul out for them. But they think it all just happens up here in Washington.

So, with all the problems that you have in getting a good dairy bill or a good dairy policy, you folks are doing a wonderful job. And the ads that we are beginning to see on television now, I think are going to do more to help revitalize the American public's interest in dairy products than anything I have ever seen. They are some of the finest ads anybody has ever produced. It just runs cold shivers up my spine when I see some of them for just how good they are. And all of the American dairy industry has got a lot to be proud of there.

I am not going to ask you my same question I usually ask you. Is it possible for us to have a dairy bill, or dairy program, that better considers regional differences? You heard me say earlier that some of my Southeast boys are saying that they compromised, they felt like, a little too much last time. I know that we have to have a national dairy policy. They can beat on me all day about how they may be compromised too much before, but the bottom line is when we go to that House floor we have to go together, and either we have to have one dairy policy for everywhere or we need to have something that has some built-in regional variances.

I would like to ask you, Irv, since you cover the total spectrum so far as fluid and manufactured interests are concerned, is it possible for us to do a better job this go-round with some regional differences? Or are we going to have to try to be better compromisers?

Mr. **Elkin**. We, being a lot of the dairy farmer leaders working through National Milk—spent a good, good many hours by about four meetings, and that discussion does come up.

As far as our organization, we do cover that broad spectrum of all types. And our position has been—the position that I put forth—that we are certainly willing to look at something like that. But, however, having said that, as soon as you look at one area, which happens to be your area, the Southeast, I might say, that was hit the hardest—and we recognize that problem—as soon as we attempt to make some concessions, or even talk about it, then you have another area that isn't quite as short but they want some concessions. Then about that time we lose another large State that says, look, we don't like any of this, however, if we are going to have it, it is going to be evenhanded.

So I guess I was just presented the problem. We are willing to look at it, and maybe this body can develop something that is acceptable. We have not been able to agree on something along that line. But we do recognize the problem.

Mr. **Palla**. Congressman Rose, this thought just popped in my mind, but if a bill came out of this deal, say along the paid diversion type plan, we use $10 a hundred—one of the reasons the signup was so heavy in your area is because of the high cost of production. If you took one bill that covered the Nation and changed the paid diversion rates in the different areas, you could vary your signup in areas.

In other words, the Southeast, if they were only offered a $6 diversion rather than a $10 because of their high cost of production, there might not have been as big a signup. That was just an idea. But there might be something to be worked out where you have got one bill that covers the Nation with different variables within it.

Mr. **Rose**. Mr. Townsend.

Mr. **Townsend**. The Mid-America Dairymen will support the position of the National Milk Producers Federation which will be on a panel a little bit later. But, yes, we will have one bill, and I think the dairy industry will support that bill before the subcommittee. My guess is that if we work long and hard we are going to come up with one bill that does have some little, bitty wrinkles in it that will be acceptable to all segments of the dairy industry.

Mr. **Rose**. Thank you.

Gentlemen, thank you very much, and I appreciate your testimony. Thank you, Mr. Chairman.

Mr. **Stenholm**. Mr. Olin.

Mr. **Olin**. Thank you, Mr. Chairman. I, unfortunately, had to leave the meeting before your testimony started, and I only have one question, and you may have covered it already. If you have, I apologize. The basic question on whether the diversion program to be judged a success or not, the facts that you brought out are certainly true. Isn't it also true, though, that the jury is still out in the sense that we don't know for sure what kind of production buildup may occur when the program has ended, and we have a pretty good elapse, and we find out how many heifers come onstream, and just what kind of a production bulge we finally end up having possibly as a result of the program.

Could somebody comment on that aspect of it?

Mr. **Sipple**. I guess this is just a personal thought, but I think, too, we are going to see a little—I don't know, 3 months, 5 months, 6 months—but I think with the price adjustments and the economics of the thing, I think any production trends long-range, I guess I would have to—it would be my philosophy that they would not increase too sizable, in the next, say, 12 months, I would think would be——

Mr. **Olin**. You would think we would not bounce back higher than we were before in production?

Mr. **Sipple**. Not over a long period of time, I don't think, no.

Mr. **Elkin**. If I could respond to that—the testimony that I presented is that we believe that we need in place a permanent, at least permanent for the dairy bill, supply management which would trigger in and out. I think that's important in that bankers could look at that and they would know better how to run their business to help farmers run their business.

In other words, what you are doing is signaling to the dairy industry, or people who would like to be in the dairy industry, that we do have some problems at that particular time with overproduction.

So I don't think that we would ever believe that supply management for 15 months or even for 2 years would forever solve the problems of the dairy industry down the road. I don't think price will either. You try it with price and I guarantee we will have problems we haven't even thought of if you get that low enough that you start running short of milk, and we have been through that.

So I don't think we are saying that any one tool can solve that problem. But we go through cycles. And if we can break those production cycles—we weren't able to do that the last time without this mechanism—then we can get back into a more norm and maybe in 3 or 4 years the history of the program shows that we wouldn't have that problem.

When something starts to build and impact us, maybe something outside the industry—that's when we need that tool that can come into play.

Mr. **Palla**. I participated in the program and I will be one of the guys that you are concerned about, about going back in production. But that result is not a result of the diversion program, it's a result of the 15 months. Had the program, as it is, lasted 2 years, myself and a lot of other people that kept heifers, would have done things different and those heifers wouldn't be there.

But I think it's unfair to the program to say it didn't work because we have got all these heifers out here that are going to come in. I think the concept worked. It was just when that program was cut from 2 years, as originally promoted, down to 15 months, you just changed the whole circumstances of the ball game.

Mr. **Olin**. I would submit that maybe we will watch and see what happens here now for another 6 months, or 9 months, or a year, and we will know for sure at the end of that time about how we feel about it.

Those of us in the Southeast, as you well know, really, we are not too much in favor of the program, and felt like we were paying the bill for it, and not getting much of the benefit. And we ended up short of milk. That's going to have to be dealt with somehow as we go ahead. Because if we adopted a permanent diversion program, and in some parts of the country that don't really need the program, we certainly wouldn't want to have them paying for it. I think you would probably agree with that.

Mr. Elkin. If I could comment on that, we are looking at this year, or last year, you were short of milk. But we have seen many years when that area, not too long ago, was long on milk. And that creates other problems, because you don't have the manufacturing facilities that you can keep full on a year-round basis, and the cost of that running some milk through that on a few months a year is horrendous. So, therefore, that area moved milk back into some areas of Wisconsin, Illinois, and places where we did have the facilities.

So, long term, I don't think in dealing with the dairy farmers down in that area that they want to get in the position of having surplus either. And there's a fine balance between being a little short and a little long. So you do have an unusual situation at this time, but it has been otherwise.

Mr. Townsend. One of the things that did happen, I think the real options that we looked at when we passed the Dairy Diversion Program, was whether we were going to have a 50-cent diversion program or whether we were going to have a cut of $1 or more in support prices.

Now, your area, if it would have been as every other area in the United States, if we had had a $1 cut in support prices it would have affected every dairy farmer in your area as well as every dairy farmer all over the country.

So it is kind of the lesser of two evils even if you want to look at it in the most negative sense. I can look at it is that the dairy farmers all over the country are better off, and the consumers are better off, and the taxpayers are better off—I don't see any negatives in terms of the Dairy Diversion Program.

Mr. Olin. Thank you very much.

Mr. Gunderson. Mr. Chairman.

Mr. Stenholm. Mr. Gunderson.

Mr. Gunderson. I appreciate you yielding just a second. I just want to correct one possible misunderstanding, or at least I don't want it to occur around here that "one particular region, and that being the Southeast," has "been asked to pay the bill for the Dairy Diversion Program."

Let me just share with you some statistics. The State of Kentucky paid $10 million in assessments during the diversion program but they got $25 million in diversion payments.

The State of Georgia paid $6 million in assessments but they got $15 million in diversion payments.

The State of Wisconsin, we paid $115 million in assessments, we only got $85 million back.

So if you want to talk about who is paying the bill, I can make the case that the Midwest is paying more of the bill than anybody else is.

Mr. Townsend. All producers in the United States share and benefit in the dairy price support program on the same basis.

Mr. Coelho. Will the gentleman from Wisconsin yield?

Mr. Gunderson. Sure.

Mr. Coelho. Would you tell me what happened in California? I would be interested.

Mr. GUNDERSON. I don't have that.

Mr. COELHO. You don't have that? It is obviously good from our point of view because you would pick it up anyway.

Mr. GUNDERSON. You know I wouldn't do anything to hurt you.

Mr. STENHOLM. A couple of questions that I would like to ask. What was the real signup? The administration said 20 percent. Mr. Elkin, what was the real signup as a percent of the dairy farmers?

Mr. ELKIN. Originally, the administration came out and said there was only 12 percent signup, and we came out with figures more in the 20 to 22 percent range, and maybe a little higher.

I heard them this morning now say that it was in the 20 percent range.

Mr. STENHOLM. OK.

Someone stated, and I certainly concur to this, that I believe everyone in the industry, the producers, the processors, the consumers, want stability and predictability.

I don't want you to answer this question today, but this is something that I would like for you to furnish for the record and for members of the subcommittee. When we talk about standby authority for a diversion program, it seems that we are going to have to address four major areas. One is the trigger level. Two is a slow phasein to avoid the problems of disruption in the beef industry that were the political problems we got into before—dealing with the slow phasein. And, again, I think if you have it in law and it's out there with the trigger, you are going to have some of the predictability and uncertainty is going to be removed.

Also, I think in line with Mr. Rose's question and Mr. Olin's concerns that something along a bid basis might be in order. And I want you to give some consideration to a bid basis. We do this in other commodities, and I think that's going to be important.

And, of course, the cost of the program—and you are in total agreement on that—that this is an assessment paid by dairymen and the consumer. And that's the way it goes. I don't want an answer to that now, but I would like to have that input into the subcommittee.

[The information follows:]

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MAY 10 1985

May 8, 1985

Honorable Tony Coelho, Chairman
Subcommittee on Livestock, Dairy and Poultry
Committee on Agriculture
United States House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your letter of April 19 and the request made by Congressman Stenholm during the hearing of the Livestock, Dairy and Poultry Subcommittee on the 1985 farm bill dairy provisions on March 27. Since similar requests for information relating to the operation of the standby supply-management program as an adjunct to dairy price support policy were made of Mr. Marvin Horn, Mr. Wayne Palla and myself, this response will represent our joint views on the issues raised.

The analysis presented below represents the view of Associated Milk Producers, Inc. on the operation of such a program under specific circumstances. As you may be aware, the Executive Committee of the National Milk Producers Federation has recommended a standby supply management element as part of the 1985 farm bill. That recommendation is to be considered by the Board of Directors of the organization at its meeting May 10, 1985. The comments and analysis contained in this letter address the operation of a program based on the parameters established by the NMPF Executive Committee.

Briefly, that plan calls for:

1) Program availability October 1, 1985 or on enactment of the 1985 farm bill.
2) A basic government responsibility for the purchase of five billion pounds, milk equivalent.
3) No diversion/assessment program if the Secretary's estimate of CCC purchases is less than five billion pounds for the year.
4) If the estimate of CCC purchases is between five and seven billion pounds, implementation of the diversion/assessment program would be optional with the Secretary.
5) If the estimate of CCC purchases is in excess of seven billion pounds, the diversion/assessment program must be used.
6) The producer responsibility for program costs over five billion pounds would be met through an assessment on all milk marketed although no assessment would be implemented in the absence of a diversion program.

"What are the implications of employing various 'trigger' points to implement a diversion program as part of price support policy?"

Two factors must be considered in this regard. The first is the degree of government cost control desired or necessary as part of the program. Second, the promptness with which the diversion program is expected to establish or restore the needed supply-demand balance in the dairy industry.

a) Cost Control: Using the concept outlined by the NMPF Executive Committee, the maximum cost for Fiscal 1986 could be limited to an estimated $800 million if the 5.0 billion pound trigger level were used.

   If the estimate of CCC purchases for Fiscal 1986 were between five and seven billion pounds and the diversion program were not employed, government costs could increase to an estimated $1.1 billion.

   For each additional one billion pound increase in the trigger level (and government responsibility), government cost exposure is increased by an estimated $160 million in Fiscal 1986. This assumes a price support level of $11.70 as determined by the Dairy Pricing Index developed by National Milk Producers Federation. These cost estimates include product purchases and an allowance for storage, handling, transporation and other costs associated with the program and also reflect sales and other receipts arising from program operations.

b) The Time Factor: The higher the trigger point used, the greater will be the time required to bring about the adjustment needed. If long term policy seeks an optimal level of removals at five billion pounds or less, triggering the diversion program substantially above that point restricts the ability of diversion to effectively achieve its purpose and would require use of the diversion program in successive years.

   During Calendar Year 1984, CCC removals were reduced to 8.6 billion pounds, almost 50 percent below year earlier levels. The "snapback" expected following ending of diversion, however, will lose a portion of that gain. With surpluses at extremely high levels--such as the 16.8 billion pounds preceeding the 1984-85 diversion--use of a diversion program for several successive years could be expected. Applying diversion at a lower level (five to seven billion pounds) would require a much shorter application. Under most circumstances, this would accomplish the required adjustment within a a one year time frame.

"Is it possible to phase the program in so as to avoid disruption of other livestock markets?"

During the debate accompanying development of the 1984-85 diversion program legislation, a great deal was said regarding the negative impact the program would have on livestock markets, particularly the cull cow market. Actually, the greatest impact was the psychological effect on the market some months before program implementation. That was caused by predictions of negative impact and had nothing to do with program operations.

A lower trigger point would help address concerns in this area by reducing the problem to be dealt with. The sooner the program was put in place, the lower the number of additional cattle potentially moving to slaughter. The diversion concept itself is an effort to bring about a managed or controlled movement to slaughter of excess cows in the national dairy herd. Relying on a milk price reduction alone to achieve this end may delay the additional slaughter movement for a period of time, however, once it begins, it is totally uncontrolled and uncontrollable.

It is possible that the diversion program could be placed on a calendar year basis. This would avoid having program startup coincide with the peak period for beef cow slaughter. This, however, would weaken the diversion program, lessen the budget impact and create confusion regarding the time frames involved in the program by having the price support program itself operating on the basis of the October-September marketing year while the diversion program functions on a calendar year.

A phase-in under which producers began program participation on a staged basis would add administrative complexity and yield little concrete benefit.

"Would use of a bid basis to provide for whole herd diversion be an effective alternative or addition to the program?"

Proposals have been made to include an option in the diversion program under which individual farmers could offer to "retire" their entire operation on a bid basis. Such a bid would include an agreement to halt any milk production in the facility for a stated time period. All animals of productive age would be sold to slaughter or into export.

This is similar in some respects to the "whole farm" option offered under the PIK Program in 1983.

Several factors have to be considered.

a) The whole herd option would be attractive to producers considering retirement. In that respect, it could have the effect of more permanently removing productive capacity.

b) To the extent that producers bid into the program at less than the $10.00 per hundredweight diversion rate, it would lower diversion program costs and reduce producer assessments.

c) Even for producers resuming operations following the program, a totally new startup would involve a phase-in of several months, delaying any "snapback."

d) Many cooperatives, handlers, and state and Federal market orders employ seasonal base plans and other mechanisms to encourage milk production tailored to seasonal market demand. Totally idling the facility could seriously disrupt the operation of these mechanisms and create problems for the producer out of production during a seasonal base building period.

e) Unless rigid limitations were placed on program participation concentration, severe dislocations could be created for particular markets or even individual processors.

f) Large payments under government programs continue to be a point of controversy. Although a case cannot be made for payment limitations under the diversion program where producers are providing program funding, this has attracted attention. This would be a greater factor under the whole herd approach. A $20,000 payment under the 1984-85 diversion program represented 30 percent participation by a producer with a 55 cow herd with a 12,000 pound per cow marketing average. Under the whole herd concept, the $20,000 payment level would cover fewer than 17 cows.

g) Since this does involve upfront cessation of production, it may be charged that this would increase impact on other livestock prices.

"What are the costs of a standby diversion program authority a) to the farmer, b) to the consumer, and c) to the Treasury?"

a) The Farmer: Since it is proposed that program costs in excess of a defined government responsibility would be met by producers when the diversion program is in operation, the assessment to meet this producer responsibility is the most obvious cost. For Fiscal 1986 with marketings estimated at 132 billion pounds and producers responsible for $426 million in program costs, the assessment would be 33 cents per hundredweight.

There are other costs more difficult to quantify. These would include the costs of less than full utilization of the farm's capacity and costs that may be associated with restructuring of herd management. These factors vary from operation to operation and would be taken into account by the individual farmer in making a decision on program participation.

There are identifiable returns to producers as well. For program participants, the $10.00 per hundredweight diversion payment is available. For producers raising their own feed, the possible sale of cash grain becomes a return. For all producers, avoided production costs represent an easing of cash flow demands.

Strengthening of markets for milk is a major factor. Farm prices for milk improved during the summer, fall and winter months of 1984 and 1985 under the influence of the diversion program. Milk price increases beyond what could have been expected from seasonal movement added an estimated $400 million to dairy farmer income during the period from July 1984 through February 1985. This contrasts with an income loss that would have resulted under the $1.50 price support reduction advocated as a substitute for the diversion program in 1983. If that policy had been adopted, it is estimated that dairy farm income during the period discussed above would have been $1.25 billion lower.

b) The Consumer: Consumer costs under a diversion program are more difficult to identify. If the principal alternative is a price support reduction, there is little evidence that this is or would be passed along to the consumer. This was not the case in prior periods nor did this happen when the price support level was reduced in December 1984.

In November 1984, farmers received an average of $13.90 per hundredweight for all milk, the same as a year earlier. Following the 50 cent price support reduction on December 1, 1984, prices began declining and by April, the 50 cent reduction was fully reflected in the all milk price--$13.10 for April 1984 as opposed to $13.60 for April 1983, a 3.7 percent reduction. As mentioned above, price improvement did follow during later stages of the diversion program.

COMPARISON OF PRICES RECEIVED BY FARMERS
All Milk, Average Test, per hundredweight, selected months

MONTH/YEAR	PRICE	PERCENT OF YEAR EARLIER
Nov. 1983	$13.90	100.0
Apr. 1984	13.10	96.3
Nov. 1984	14.30	102.9
Feb. 1985	13.80	102.9

Comparisons of several consumer price measures for the same time periods are presented below.

MONTH/YEAR	CONSUMER PRICE INDEX	PERCENT OF YEAR EARLIER	INDEX OF ALL FOOD	PERCENT OF YEAR EARLIER	ALL DAIRY PRODUCTS	PERCENT OF YEAR EARLIER
Nov. 1983	303.1	103.2	292.5	102.1	250.2	101.1
Apr. 1984	308.8	104.5	302.3	103.6	251.2	100.6
Nov. 1984	315.3	104.0	304.1	104.0	257.2	102.8
Feb. 1985	317.4	103.5	309.5	102.4	259.2	103.3

As the above shows, the farm price decline was followed by a slowing of the rise in retail prices of dairy products. As farm prices advanced beyond year earlier levels in late 1984 and early 1985, this was fully reflected (as a percentage) on a current basis. While the February 1985 farm price was almost three percent over a year earlier, it should be pointed out that the $13.80 price was the same as farmers received in February 1983 and 1982. At the same time, the Index of Retail Prices for All Dairy Products in February 1985 was 103.8 percent of February 1983 and 105.2 percent of its February 1982 level.

All of the consumer index data presented above are elements of the overall Consumer Price Index and use 1967 = 100 as a base. This demonstrates that retail price increases for dairy products have consistently lagged other consumer cost increases.

The above concentrates essentially on short term impacts. In the longer term, standby diversion authority would provide producers a tool that would enable them to realistically tailor production to the needs of the market. In this sense, this is a more realistically market oriented program than others discussed under that name. Most comment on this has been directed toward potential reductions in government cost. However, there is a significant consumer price stabilizing element present. Consumer prices rarely decline in response to farm price decreases. As shown, price increases are promptly passed along. If production levels are more closely coordinated with market needs, the prospect of rapid consumer price increases flowing from drastically shortened supply (that would result from excessive price reduction or program abandonment) would be eliminated.

c) Treasury Costs: As pointed out, implementation of standy diversion authority in Fiscal 1986 with a five billion pound government responsibility would effectively cap government costs at an estimated $800 million. Absent the diversion, price support program costs for 1986 are estimated at about $1.2 billion.

It must be recognized that the five billion pound government responsibility does not represent an absolute commitment. It would be an outside limit. In 17 of the 35 years the price support program has been in effect, purchases have been below the five billion pound level, averaging three billion pounds. In the 18 years in which purchases exceeded five billion pounds, they averaged 8.8 billion.

Availability of standby supply management authority would provide a means of halting excessive and unneeded expansion of production capacity, avoiding the relatively long and costly adjustment process.

In total, the presence of standby supply management authority as part of dairy price support policy improves the flexibility of the policy mix. It provides an effective means of maintaining farm income, maintaining stable consumer prices, and reducing government costs.

I trust that this information will respond to the questions raised by you and Congressman Stenholm.

Sincerely,

Irvin J. Elkin

Irvin J. Elkin
President

Mr. **Stenholm**. Base period, and here again we are talking philosophy, but if you are going to have any kind of a program that deals with bases, the period of the base, what would you recommend today be the base period for the 1985 dairy program that takes effect in 1986?

Mr. Elkin.

Mr. **Elkin**. The terms we have talked in is the most recent 12 months. And by that, I would say we talked in terms of taking this last 6 months out of last year and the first 6 months out of this year. In other words, ending in June. So we don't precipitate a race for base. In other words, taking the most recent.

Mr. **Stenholm**. Most recent 12 months?

Mr. **Elkin**. Yes; and I think that was mentioned by Wayne, and that was one of the reasons some people didn't get in because they had expanded.

See, then they are not talking about cutting 10 percent—in many places they had to cut 10 to get down to cut the 10. So I think we would attract more people in if we use the most recent.

Mr. **Stenholm**. Anybody else?

Mr. **Townsend**. Generally, yes, we will support. It is the position of the National Milk Producers, and we will support it, and it is essentially the most recent 12 months, say, July 1 to June 1. If you are implementing a program, say, in October, you will get the July information in the middle of August and analyze in September and implementation October 1, beginning in the marketing year, that would be a good time.

Mr. **Palla**. Congressman, I think it is imperative not only because I am in that situation, but one of the arguments people did not go in the diversion program was that they said it is going to be a 15-month program and then they are going to come in with a program and use the previous 12 months as your history, and if you go in the program you are going to lose your history.

That was one of the arguments that kept people—I know some people in California that didn't go in it because of that very reason. So I think anything that's done, I think the people that participated in the program did help turn the tide, and I think you owe it to those producers to at least go back and give them their prediversion histories.

Mr. **Stenholm**. I was assuming when you said the most recent 12 months that you were saying that milk that was produced or considered produced. In other words, diverted. You would not penalize the fellows that have actually helped with the supply management.

Mr. **Townsend**. Definitely.

Mr. Chairman, one of the things in terms of your numbers, I think it would be helpful to you is to get USDA to give you a State-by-State analysis of the number of dairy farms by the herd size. I think that you will find that about 85 percent of the total milk produced in the United States comes from about 115,000 dairy farmers, not the 300,000 that we talk about.

Mr. **Stenholm**. One last question.

Mr. Elkin, you serve on the National Commission on Agriculture Trade and Export Policy. There is a report to you March 31. What recommendations will you be advancing to promote dairy exports?

Mr. Elkin. None. We have not really talked about dairy exports as such. It has been all on grain and other commodities.

Mr. Stenholm. Thank you.

Mr. Stangeland.

Mr. Stangeland. Thank you, Mr. Chairman.

I just want to commend both the AMPI and Mid-America, the two biggest co-ops serving my congressional district, for excellent testimony.

But before you leave, I just want to make one, what I think is a correction that should be made for the record. I am sorry that my good friends Mr. Daschle and Mr. English aren't here to hear me say this. I just think that we had not ought to castigate the Department of Agriculture for writing rules and regulations to keep dairy farmers out of the program. I don't think they did that.

I think they wrote a program that guaranteed the success of the program. The purpose of the program was to reduce milk production, and they closed every loophole possible. In the case of precluding a farmer from selling dairy cows, if he was in the program, to anyone but the marketer or another producer in the program, who was certainly appropriate, and it prevented some farmers from being in the program.

But had they not done that, I know farmers in my district who were prepared to be in the program, sell their cows to a son or milk those cows on another farm to defeat the program.

They wrote some bad rules initially as to how you complied. You wrote in for 20 percent and you were to make that 20 percent in each quarter or be penalized. And they changed that and said, you don't have to reduce your full 20 percent each quarter but you have to make the full 20 percent over the life of the program.

I want the record to show that I think they, in a short period of time, did an excellent job of writing rules and regulations. And I agree with you, Mr. Townsend, they did not give the producers enough time to think about it. I pleaded for an additional 15 days and I think those 15 days would have made a difference.

Mr. Coelho. Thank you, Mr. Stangeland. I appreciate that.

Mr. Stangeland. I have made my point.

Mr. Coelho. You have made your point.

Mr. Stangeland. Thank you.

Mr. Coelho. Thank you. I appreciate the panel and their testimony.

I understand that two gentlemen have to leave to catch a plane. Mr. Elton Smith, president of Michigan Farm Bureau, and Mr. David Senter, national director of the American Agriculture Movement. If they are here, we will be happy to take their statement at this point so that they can catch their plane.

Mr. Smith, you may proceed.

STATEMENT OF ELTON SMITH, PRESIDENT, MICHIGAN FARM BUREAU, AND VICE PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. Smith. Mr. Chairman, I appreciate you letting us do this to help out our schedule.

I am a dairy farmer from Kent County, MI; president of the Michigan Farm Bureau, and member of the national milk and promotion board, and also a member of the largest milk cooperative marketing organization in Michigan.

I will just sketch through the testimony because of time and point out that Farm Bureau dairy producers have been very active developing our dairy position and the policies adopted at the 66th annual meeting in January, and as a result of extensive deliberation at the county, State, and national levels of our organization.

Our policy programs fit a broader geneal framework on farm programs. We believe that the dairy industry does not exist in a vacuum and, therefore, must be considered within the context of its interaction with livestock and feed sectors.

We feel that dairy producers currently face uncertain conditions in the industry, market conditions in the Dairy Diversion Program have contributed to reduce milk production from last year's levels, and dairy product sales are up.

These circumstances are a welcome relief to dairy producers indicating that supply and demand may be closer in balance as we approach the 1986 marketing year. We do not project, however, that conditions will have improved enough to avoid the two support price reductions on March 31 and June 30, 1985, as authorized under law.

We feel we have to be cautious in our outlook for the dairy industry. Some indicators are not consistent with a completely optimistic outlook for milk producers. We realize that replacement heifers are at record levels. The milk-feed price ratio is more favorable than it was a year ago, and nearly one-fifth of the 1984 production decline has to be contributed to a drop in output per cow.

These conditions suggest that the production capacity of the dairy industry could easily expand under price signals that provide incentive to produce more milk.

Our Farm Bureau proposal on revision of the dairy program under the 1985 farm bill would adjust the support price according to market signals derived from average price history and levels of Government purchases.

In this manner, market forces provide communication between producers and consumers while Government programs give assistance for orderly marketing of dairy products.

We believe that changes in agricultural policy cannot be effective without a commitment to fiscal responsibility and reduced overall Federal spending that will promote economic growth through lower interest rates, more favorable exchange rates, and increased farm exports.

Since this subcommittee hearing is concerned specifically with the dairy element of our legislative proposal, I would briefly present to you the dairy proposal that we will promote in the 1985 farm bill.

And in this we recommend that the dairy purchase program be continued but we believe that the support rate should be set at 90 percent of the average of the previous 3 years' all-year milk price.

Mr. Coelho. Mr. Smith, we are interested in your comments about the diversion program and would be happy to take the comments in regard to the 1985 bill into the record and consider them, but that will come at a different stage. So if you would give us your comments about the diversion program, we would appreciate it.

Mr. SMITH. I would go back and just point out that as I reviewed it, we recognize that we are in uncertain conditions. The Dairy Diversion Program did contribute to reduce milk production from last year's levels. We have to recognize that dairy products are up. But we also have to recognize that much of this cut in production was because of the feed price grain ratio.

[The prepared statement of Mr. Smith appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Mr. Smith.

Mr. Stangeland.

Mr. STANGELAND. I have no questions of Mr. Smith, but I welcome him to the subcommittee. His Congressman, Congressman Schuette, requested that he was not able to be here and to make you feel welcome, and we appreciate your testimony, Mr. Smith.

Mr. COELHO. Mr. Olin.

Mr. OLIN. No comments, Mr. Chairman.

Mr. COELHO. Thank you, Mr. Smith.

I just would briefly ask you a question. You heard me earlier talk about the three points that the Farm Bureau and others said would happen if the diversion program is put into effect. Those three things did not occur, according to the testimony of the Department of Agriculture.

Do you feel that the diversion program was a success even though the Farm Bureau predicted it would not be?

Mr. SMITH. We did not predict it wouldn't be. The part that we feel is unfair about this program is that it is one set of producers paying to get another set of producers out of business, and paying your neighbor to go out of business, and he would have probably gone out of business anyway.

So we feel that the market reflections have more to do with the production of milk in this country than any diversion program. And we are strongly against—and our delegates strongly voted against having any program where the farmers paid for their own program like the diversion program.

We think that's easy for Congress to vote into law assessing farmers to pay. It would have had more effect probably if you had reduced support prices, and these same farmers that went out of business anyway.

Mr. COELHO. We appreciate those comments. Your plane is waiting. Appreciate your staying.

Mr. Senter.

STATEMENT OF DAVID L. SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. SENTER. Mr. Chairman, I appreciate very much your adjusting the schedule because of leaving. I will be very brief.

The American Agriculture Movement did support the dairy paid diversion program that was enacted. We have felt like in past years that when dairy was indexed even to the 80-percent parity program, that the missing link was the supply management program.

Our organization supports a national base plan that would put in place a program that would match supply and demand on a changing basis according to what the usage is.

We also would encourage that casein be brought under the import quotas because of the unlimited nature. We understand that during the past 2 months, the dollar value of imported casein has exceeded the dollar value of purchases of dryfat powder by the Government, which is unfortunate because of the cost of the program.

And we also support reindexing of the dairy program at the 70-percent parity level in whatever legislative proposals move.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Senter appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Mr. Senter.

Mr. Stangeland.

Mr. STANGELAND. Is it your impression, Mr. Senter, that the diversion program has been successful and has met at least partially the goals that we established when we implemented the program?

Mr. SENTER. Yes, it is. The reduced production has saved $1 billion or so in outlays to the Government. It showed that a supply management program will work for dairy provided there is an incentive there that the producers can participate in the program. And we just believe that we need to actually expand and move into a national base type program so that in the different regions and across the country we can actually control better the amount of production and match it.

I personally dairied in Texas in the early 1970's under AMPI's base plan. I liked that program because I knew what I would get paid for my milk. I knew how much I could sell. I matched my long-term capital investment to it. And it was unfortunate when that base plan was discontinued because I, as a producer, liked it.

Mr. STANGELAND. Would you say that if we had a supply management program and a new dairy law that that program ought to have incentives and leave it voluntary or that that program ought to be mandatory?

Mr. SENTER. We believe the program should be mandatory as far as national base plan is concerned, but it should be an incentive type program where the producers can participate in it.

Mr. STANGELAND. Thank you, Mr. Senter. Thank you, Mr. Chairman.

Mr. COELHO. Thank you. Mr. Olin.

Mr. OLIN. Just one question.

Do you consider the mandatory program to be a fair program in the sense that Mr. Smith mentioned, that you have one group of people paying for benefits for another group?

Mr. SENTER. I think there has to be differentials in place in any kind of a mandatory program because of your demand in your fluid milk markets and the other situations.

On the other hand, you cannot have regions of the country continuing to expand, whether it be through tax loopholes, big investor type operations that are continuing to expand production, and expect only the family farmers out here, the medium-size dairy farms, to make all the adjustments in production.

So that's why we believe that a program across the board, when everybody participates, you are only talking about a very small, almost minute, adjustment for everybody to make the program work satisfactory.

Mr. **Olin**. You could be in the position, however, that the smart, big operator cycles his business to maximize his personal financial gain at the expense of others.

Mr. **Senter**. That's the situation we have now through tax loss farming operations and other.

Mr. **Olin**. I think there are some pitfalls here, that's all I wanted to point out. Thank you.

Mr. **Senter**. Yes.

Mr. **Coelho**. Thank you, Mr. Senter. I appreciate your testimony and we are happy to accommodate you.

I want to make sure that everyone understands that I don't intend to just go after certain selected individuals in regards to the testimony.

The purpose of these hearings is to comment on the diversion program and whether or not it was or was not a success, and to make comments according to past testimony, et cetera, so the subcommittee can have that for the record, and so we can learn from what we did in the last Congress.

We will be going into hearings on the new farm bill and at that time, we will have testimony and be able to develop it at that point.

So if witnesses have testimony in regards to a new farm bill, we would ask that you submit it for the record and we will be happy to make it a part of the record. If you want to comment on the diversion program, that's the purpose of the hearings, and we will strictly adhere to that.

Again, I appreciate the panel.

We will go through lunch. We will not break for lunch.

The next panel is Dairymen, Inc., National Milk Producers Federation and the Farmers Union Milk Marketing Cooperative.

Mr. West, if you are ready, we are prepared to hear your testimony. Please proceed.

STATEMENT OF JOHN WEST, MEMBER, DAIRYMEN, INC.

Mr. **West**. Mr. Chairman, I am John West. I own a dairy farm in Godwin, NC. I have been with Dairymen just 2 years. I was a little independent.

I was up here in 1983 on the dairy bill. I am representing Dairymen, which has approximately 7,000 members.

Once again, Mr. Chairman, I am here to communicate that the positions we held over 2 years ago remain our policies today. I repeat my request of 2 years ago and ask this subcommittee to hear the pleas of the Southeastern dairy industry and take the appropriate steps to ensure that the new dairy program put in place this fall does recognize that there are regional differences in dairy farming.

If you choose to continue ignoring the reality and inequalities to both Southeastern dairy farmers and Southeastern milk consumers, all will continue to suffer the consequences of a continual decline in milk production and higher costs to consumers for fluid milk.

Mr. Chairman, my testimony and that of the other two representatives of Dairymen, Inc. have three objectives:

First, we wish to communicate the facts regarding milk production prior to the Dairy Diversion Program and as it now exists under the diversion program.

Second, we wish to relay to you the unique nature of the Southeast dairy industry and the role marketing orders play in this region.

And finally, our concerns and recommendations for a dairy program which we believe recognizes the national surplus problem while treating all milk producers and milk consumers fairly.

Mr. Chairman, these last 2 years have caused dairy farmers in the Southeast to become increasingly aware of the impact of the surplus program and the support price that we believe has not affected us at all.

I wish to present several exhibits which I believe illustrates the fact regarding milk production in the Southeast. Milk production in the Southeast has declined drastically over the past year.

Exhibit II details the milk diversion program participation in the Southeastern States. It identifies the number of participants, the base volume of participants, the volume cut and the volume cut as a percent of 1983 production.

It also contrasts those results in the Southeastern States with those of the entire United States.

The bottom line, Mr. Chairman, is that the Southeastern States participated to cut back production 9 percent as compared with a national reduction of 5.5 percent. These regional figures can further be contrasted with the diversions in the Northeast at about 2 percent and the Midwest at about 3.4 percent.

My next exhibit, exhibit III, entitled "U.S. Milk Production," compares production figures in 1983, 1984, and those available for 1985 on a national basis. The average U.S. production decline in 1984 is 3.28 percent. This contrasts with exhibit IV, entitled "Milk Production in Nine Southeastern States," which shows an average decline of 7½ percent, and the most recent data from January 1985 saw an 8½-percent decline from 1983.

Clearly, the Southeast has reduced marketings at substantially greater levels than the rest of the country, despite the fact that the Southeast milk production is inadequate to meet the fluid milk needs of the region.

Mr. Chairman, the next two exhibits I wish to present further exemplify the shortage of milk in the Southeast since the inflation of the Dairy and Tobacco Adjustment Act of 1983, and due to lower prices, rising costs and weather conditions in some areas of the Southeast.

Exhibits V and VI, "Producer Milk Pooled on Twelve Southeastern Federal Marketing Orders," and "Present Class I Utilization of Producer Milk Pooled on Twelve Southeastern Federal Marketing Orders" show major drops in producer milk pooled with increasing class I sales, and the percentage of producer milk allocated to class I under the 12 Federal orders has increased substantially. In June 1984, the increase was 12.6 percentage points over the previous year and data for January 1985 showed a 9.5-percent drop in producer milk pooled from 1983. Class I utilization was 9.6 percentage points above January of 1983.

The effect of these radical declines in production and continuing increases in milk going to class I use is a tremendous regional dislocation of milk in the Southwest. Exhibit VII, "Bulk Receipts From Twelve Southeastern Federal Orders," quantifies the amount of milk movement in 1983, 1984, and the percentage change from 1983 to 1984.

The amount of milk moved in the Southeast hit a peak in November 1984, with a 353.62 percent milk movement from other Federal orders, both within and outside the Southeast.

Some have lauded the dairy diversion program as having been a great success due to reduced Government costs and declines in CCC purchases. The facts and figures I have testified to today only strengthen the arguments which I presented to you 2 years ago—such programs seriously worsen the milk shortage problem in the Southeast. A program which cuts production most significantly in areas which are in a deficit position cannot be viewed as completely successful; rather, it reinforces the inequality of such plans.

Thank you, sir.

Mr. Coelho. Are you through, Mr. West?

Mr. West. Yes, sir.

[The prepared statement of Mr. West appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very much. Mr. McDonald.

STATEMENT OF GEORGE McDONALD, MEMBER, DAIRYMEN, INC.

Mr. McDonald. Thank you, Mr. Chairman.

I am George McDonald, a 24-year-old dairy farmer from Riddleton, TN. I am also a member of Dairymen, Inc. This is the first time I have appeared before your subcommittee to testify on the dairy situation in the Southeast. I appreciate the opportunity to be here today.

Mr. Chairman, John West has relayed to you the facts in regard to the milk production situation in the Southeast. Clearly, the dairy industry in the United States differs widely by region. Because the different programs have different impacts by region, the Southern industry is unique enough so that it is more vulnerable to certain policies.

The South is a fluid milk market, a beverage market. There is little manufacturing grade milk produced; in fact, less than 5 percent of marketings. Surplus grade A milk is used in manufacturing products, but the region consumes more dairy products than it produces. Indeed, several Southern States are deficit in the production of fluid milk and have to import milk for bottling purposes. A so-called "give-up" charge of $2.50 to $3 per hundredweight was in many instances tacked onto the prevailing class I fluid price.

Costs of producing milk are higher in the South than elsewhere. Reasons: Heat stress and higher feed costs are the two major factors. Although prices are also higher in this region, USDA studies indicate that the South is also the lowest return milk producing region. These unique characteristics need to be taken into account when you develop the dairy program for the 1985 farm bill.

I would like now to address our current Federal Milk Marketing Order Program. The position that the Federal order system was designed to obtain a supply of milk for fluid use is clearly stated by the Agriculture Marketing Service, U.S. Department of Agriculture, in their brochure, "Questions and Answers on Federal Milk Marketing Orders."

The 1976 version states:

> Federal orders are primarily instruments for stabilizing market conditions for fluid milk and for this reason they apply to milk which is produced under sanitary inspection for sale in fluid form.

Thus, an adequate supply for fluid use is clearly the objective of the Federal order system.

The Agricultural Adjustment Act of 1949, which set in place the price support program, was designed to maintain an adequate supply of milk to meet current needs and to maintain productive capacity to meet future needs for all uses. However, these two programs have been ineffectively administered and thereby have permitted shortages of milk production in the Southeast.

If these programs continue to operate in a fashion which ignores the needs of the Southeast and only recognize a national surplus, equity will not be restored. This inequitable implementation of the Price Support Program and Federal order system in conjunction with the Dairy and Tobacco Adjustment Act of 1983 has failed to attract the necessary supply of milk for fluid use in the Southeast.

The Federal order system and the price support program must work independently, not as one program. Properly used, these two programs, legislated by Congress for different purposes, can deal with the national problem of overproduction and at the same time assure adequate local supplies of fluid milk.

One major problem is the Federal order class I differentials and location differentials which do not adequately reflect the cost of transferring milk from surplus areas to deficit areas.

The implicit transportation differential, which is used to set class I prices in the 47 Federal marketing orders around the country has not been changed since the 1960's. For example, the minimum class I price in the State of Georgia is the Minnesota-Wisconsin price plus $2.30. But today, it costs around $3.50 to ship the milk from the Upper Midwest into Georgia.

With a goal of protecting fluid milk prices as manufacturing prices fall, it has been proposed that Congress take action to raise the differential to reflect the true transportation costs.

If these inequities in the Federal order system are not changed, in the long run, significantly higher prices will be needed to generate the necessary supplies for the Southeast. On a temporary basis, the Agriculture Marketing Service did grant a 20-cent increase in the class I differentials and provided a hauling credit for handlers in the Southeast. The amendments ended in February of this year. Another problem is that class I prices should not move from month to month on the basis of changes in the price of manufacturing grade milk in Minnesota-Wisconsin.

We have two good programs that—properly operated and coordinated—can adequately and effectively meet the needs of the industry. The price support program can be used to provide a basic safety net for all milk. The Federal order program can be used to deal with regional and local differences so that milk is priced to attract an adequate supply for fluid use. The programs need to be so administered.

Thank you, Mr. Chairman.

Mr. COELHO. Thank you very much. Mr. Spencer.

STATEMENT OF BILLY SPENCER, MEMBER, DAIRYMEN, INC.

Mr. SPENCER. Thank you, Mr. Chairman.

I am Billy Spencer, from Lawrenceburg, KY. I farm in partnership with my father. We have 500 acres. We milk 115 cows. I am also a member of Dairymen, Inc., and I would like to thank all of you for allowing me to appear before your subcommittee to discuss the dairy situation in the Southeast.

Mr. West and Mr. McDonald have just related to you the unique characteristics of dairy farming in the Southeast, which I hope you will realize. As a consequence of these characteristics, it is not surprising that Southern dairymen tend to favor market-oriented price-support policies. They receive only indirect, not direct, benefits from Commodity Credit Corporation purchase activities. Nor is it surprising that a considerably larger proportionate signup for the $10 per hundredweight diversion payment occurred in the South last year for obvious economic reasons.

As a result, local shortages of milk in the South developed despite a condition of continuing abundant supplies on a national basis. Southern dairy farmers had to pay a dear price to bid milk away from plants in the Midwest that were still turning out butter, cheese, and powder destined for Government warehouses. These facts hopefully will be considered when the farm bill is considered.

Dairymen, Inc., predicted that when the diversion program was passed that there would be a tremendous dislocation of supply. We think this is one prediction, regardless of the other three did not turn out, that did come true.

To provide long-term stability for the consumers and the producers in the United States, we feel the basic support price mover should be a dairy specific one; that based on a general farm parity formula the program needs a price mover that relates more specifically to conditions that directly influence milk production and should be market oriented with a safety net and include a trigger mechanism based on Government purchases.

The price support program must recognize and adjust to the market for dairy products. A program that allows production to increase at a faster rate than the market is no longer acceptable. The price support program should provide a safety net to prevent such low prices that would cause long-term damage to the industry.

It should also recognize changes in productivity, which could be measured by proxy such as production per cow.

The price support should use only price to control supply, with no national quotas, diversion payments, and no assessments. These payments and assessments have been used recently to deal with the large surplus of milk production, and in the interest of the dairy industry and the public, only price should be used to balance supplies with demand.

The price support program should allow some discretion on the part of the Secretary of Agriculture. The development of a formula that results in exactly the correct price adjustments is virtually impossible, of course. Allowing the Secretary some discretion makes a more workable program.

We also recommend an uncomplicated support program. It has to be simple enough to be understood by those directly affected and by those who do not work with the program on a regular basis. It should be easy and inexpensive to administer, and we believe our concept would meet this criteria.

And, too, the support program needs to maintain effective import controls to keep the United States from becoming the price supporter and dumping ground for the dairy production of the entire world.

On a final point, dairying is an integral part of the total U.S. agricultural industry. Recent experience shows that dairy farmers cannot be well very long when the total agriculture community is depressed. Therefore, we have a vested interest in seeing that all U.S. agriculture does well.

We think the farm bill that is coming up will most likely be a comprehensive package and we want to support basic legislation for agriculture as a whole. Important issues, of course, include trade expansion and reasonable trade policies that reflect the realities of today's world trade.

Through programs such as these, the bounty of the U.S. dairy farmer can make substantial progress in aiding developing countries in section 416 and the like. Agriculture is still our largest industry and it is our best candidate to reduce the international trade deficit.

In closing, if agricultural exports cannot be expanded to the point that farming shares in the prosperity of this country, then we need to look hard and seriously to a program that will adjust farm output to our domestic markets; otherwise, a depressed agriculture will lead this country into much more serious economic problems.

Thank you very much.

[The prepared statement of Mr. Spencer appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Mr. Spencer. I want to compliment all three of you on your statements. I like to see dairymen involved in these hearings.

Mr. Barker.

STATEMENT OF NORMAN H. BARKER, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, ACCOMPANIED BY JOHN MENGEL

Mr. BARKER. Thank you, Mr. Chairman. We do, indeed, thank you for this appearance before your subcommittee and for the courtesies and considerations of this committee in the past and we are indeed glad to be here.

I am Norman Barker, a dairy farmer from Pratt, KS, and president of the National Milk Producers Federation and secretary of Associated Milk Producers, which is a dairy cooperative marketing association headquartered in San Antonio.

The National Milk Producers Federation, as is perhaps well known, is the national farm commodity organization representing about 80 percent of the milk production in this country.

Mr. Chairman, we have a written statement that I believe was provided to your subcommittee, and we would like to have it made part of the record.

Mr. COELHO. Without objection, that will be done.

Mr. BARKER. Basically, our testimony and mine today is directed toward the fact that the milk diversion program has been a success. I think you have heard much testimony and I will not be too repetitive in that.

We sincerely believe that standby authority for such a program should be included in new legislation. We believe the Milk Diversion Program has been one that recognized the productive capacity of the country and recognized also an effort to try to manage that productive capacity in the interest of all in the country, consumers and producers.

Mr. Chairman, we believe it has accomplished that task and we thank all who participated in helping to develop this program.

Unless there are questions, Mr. Chairman, that concludes our remarks.

[The prepared statement of Mr. Barker appears at the conclusion of the hearing.]

Mr. COELHO. We appreciate the brevity of your comments and appreciate the comments, as well. Mr. Mengel.

Mr. MENGEL. Mr. Chairman, I do not have a statement today. I am accompanying Mr. Barker for purposes of questioning.

Mr. COELHO. Mr. Caruso.

STATEMENT OF DOUGLAS J. CARUSO, GENERAL MANAGER, FARMERS UNION MILK MARKETING COOPERATIVE

Mr. CARUSO. Thank you, Mr. Chairman.

I am Doug Caruso, of the Farmers Union Milk Marketing Cooperative, with 7,000 members in seven Midwestern States, headquartered in Madison, WI.

I also have a prepared statement that I would like to have made part of the record.

Mr. COELHO. Without objection, that will be done.

Mr. CARUSO. We believe that the milk diversion program has been a success, as successful as it could be given the circumstances. We think the dramatic shifts in supply and demand during the past year and the cost of the program have been beneficial to everybody involved in the industry, consumers and taxpayers alike.

We think that the dramatic and rapid improvement is, in our view, persuasive evidence that there are more effective ways to influence supply and demand than simply adjusting the support price. After all, from 1980 to 1983, producer prices were steadily reduced in real terms with no appreciable impact on the supply/demand imbalance. In fact, it was the failure of that approach, in our opinion, that prompted Congress in 1983 to experiment with the voluntary supply management plan.

The lack of a long term, sustained impact from this program is due to its limited duration and its pre-ordained termination. It was constructed as a short term, one-shot effort over 15 months and it has had that kind of impact. In our view, this is a major reason to renew and extend the use of voluntary supply management and not a reason to abandon it.

We think that the program attracted those producers, regardless of what region they lived in, who were most or best able to reduce production. The program did not enforce reduction on anyone or everyone; instead, it augmented natural forces in the industry.

A mandatory supply management plan tends to pressure all producers into making equal reductions, regardless of their individual circumstances. The voluntary approach, in our view, obtained reductions where they were most easily achieved and similarly did not attempt to force reductions on farms, for whatever reasons, where resistance would be the greatest.

So we think that we should not abandon the concept of using incentives to encourage producers to do what is in the best interest of the industry overall, and we would be favorable toward continuation of this concept in the interim between now and the 1985 farm bill, and as part of the 1985 farm bill.

Thank you.

[The prepared statement of Mr. Caruso appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much, Doug. We appreciate the comments.

For the record at this point, I would just like to state that Mr. Gunderson's staff has prepared a quick calculation on California. The assessments were $85 million. The diversion payments were $71 million. So I would like Mr. Olin to know that we were a contributor.

Mr. OLIN. You have not found anybody who was not.

Mr. COELHO. We find that some were takers and not just contributors. Anyhow, we will get to that later.

Mr. Olin, your questions?

Mr. OLIN. Thank you, Mr. Chairman.

I want to welcome my neighbors from North Carolina, Tennessee, and Kentucky. I am awfully glad to have you here today. I think you have made a good presentation with regard to one of the problem areas in the diversion program.

I wonder if you could comment just on a couple of matters in addition, and then I want to ask Mr. Barker a question.

First, in face of the fact that the Southeast area was a shortage area to begin with, or at least not a surplus area, why do you think that we got such a signup on the diversion program? Any one of you could take that.

Mr. SPENCER. I think, Congressman, there were obvious economic reasons for it, but I also think that you need to take into account, of course, the size of the farms and recognize that despite the fact that, say, Kentucky may have gotten back more in payments than it did in assessments, the cost to me and to consumers to bring in the milk from other regions to augment and supplement the demand for milk has to be considered as some kind of real cost also.

Mr. OLIN. What you are really saying is that the incentive to participate was high.

Mr. SPENCER. Yes, it was.

Mr. OLIN. The farmers figured they needed the income. I guess that is what you are saying.

Mr. SPENCER. Yes, sir.

Mr. OLIN. Is that about what the rest of you would conclude?

Then, of course, you did point out that we ended up more short than we did before, so the consumer ended up paying the bill, I guess.

Mr. SPENCER. Yes, sir. I might add, excuse me, that at least in my local area there were quite a few dairy farmers who have gone out of business who took advantage of the diversion program at that time to liquidate, and I think that is somewhat of a widespread trend across the South.

So as to the success of another diversion program, we do not see that happening again.

Mr. OLIN. What do the three of you feel is likely to be the bounce-back effect as the program ends now, next week? Do you anticipate that the fluid milk production will bounce back as high or higher than it was before, or what do you think is going to happen?

Mr. WEST. I don't think it will in our area. I may be wrong, but from the local producers I have talked to, they don't intend to go in, put new cows in, or anything like that.

Mr. OLIN. You think that a number of farmers now are just going out of business and were paid for doing that.

Mr. WEST. Several of them have. In fact, we have three down in my area now who are in the process of going out and waiting for April 1.

Mr. OLIN. Mr. Barker, could I ask you a question?

From your point of view, which is much broader than the point of view of just the Southeast, do you see a way of administering a diversion kind of a program in a way that would solve some of the problems that were presented here from the Southeast area, where I guess we would much rather not have had the program at all, just continued in a stable fashion and let the normal program of lowering the price support level in time take care of the matter, as it had for a long period of time in the past.

Mr. BARKER. Congressman, we believe there are some tools, and I think this testimony may have touched on it through the milk order system that could address these needs. We believe very much and can ask the staff of National Milk to do some work on that.

We believe there is some authority on the part of the Secretary presently that he could use. We also believe there could be some discretion given to the Secretary in addition through a new law, perhaps, that could help address it. We recognize the problem because many of the producers in other places are affected similarly.

Mr. OLIN. We have that problem, and then, of course, within the region you have the problem of the farmers who were not participating paying the diversion money for the other farmers, and that is not exactly fair.

Do you feel that a diversion program in general, that we should have a dairy program that should require the use of a diversion program as a regular tool?

Mr. **Barker**. Our testimony indicates—the National Milk Producers Federation—a unanimous position of having a standby authority for such a program, and the details of it.

Mr. **Olin**. I guess what you are saying is that on a standby basis it has some flaws or some problems with it that maybe you would like to avoid. Is that really what you are saying? If you could avoid having a diversion program implemented, that would be better?

Mr. **Barker**. I think in attempting to manage abundance in this country, we have these tools through various milk order programs and the support program that can accomplish it, and as a standby basis when production reaches certain levels that can be addressed. We believe it could be done well.

Mr. **Olin**. Thank you very much.

Mr. **Coelho**. Thank you, Mr. Olin. Mr. Jeffords.

Mr. **Jeffords**. Thank you, Mr. Chairman.

First of all, just so that the record is clear on the subcommittee and what happened with respect to the problems of the Southeast, the subcommittee did note that there might be problems in the Southeast, and the original draft that we had of the diversion program when it was in the negotiating stage was to allow for discretion of the Secretary to take regional shortages into consideration in contract levels allowed and allowed him to reduce the contracts in the area to prevent that from happening.

It was your area that came storming up here and said take those out; it is unfair to treat our farmers differently. I would also like to point out it was your farmers who voluntarily entered the program.

So I want to make sure that the record is clear because having been the one who suggested the way to handle the problem, and then have your area come up and say "Don't do it; it wouldn't be fair to our farmers," I get a little bit concerned when I hear you saying that this subcommittee did not consider that problem.

Whether anyone wants to respond to that, I don't know, but I will go on to another question. Would anyone like to respond?

Mr. **Spencer**. Well, sir, we realize that we don't mean to belittle the subcommittee, as far as that aspect is concerned, but I do know that for the farmers in the Southeast who did not participate in the diversion program and who were not able to for various reasons, they suffered tremendously because of the high participation in our area and we are not able to provide a local supply of fluid milk, which is our intent.

We are very worried about our future as far as our ability to do so within a framework of a new farm bill.

Mr. **Jeffords**. I think Mr. Barker indicated there are ways, as we had tried to do in the original bill, to handle that, and I hope that in any new program we would try to alleviate the problems that were created in the Southeast, and perhaps other areas of the country.

I really just have two questions that I am going to ask. One is a very short one which I am sure you can all either give me a nod of the head on or somebody can speak, and that is: Do you agree with the administration that we ought to do away with the dairy price support program and the CCC purchases?

Mr. **Spencer**. No, sir.

Mr. **Jeffords**. Everybody is shaking their heads no, so you all disagree with the administration's proposal in that regard.

Second, it would appear to me that we may well end up with an $11.60 price situation for the indefinite future, if my reading of what may well happen on the farm bill is correct, not due to the dairy area, because I know, having worked with Mr. Barker and the Federation and all of you that we probably can come up with a perfect bill, but I am not so sure the other areas can that will be agreeable to the administration.

So what would be the impact in the Southeast in particular, and then if Mr. Barker or Mr. Mengel wants to comment on an $11.60 price through the end of 1986?

Mr. **Barker**. Congressman Jeffords, we believe that there would be this year, in fiscal year 1986, an increase in production, but not a substantial increase nationally.

Now, as far as the Southeast, I am not sure we have any numbers here. The Dairymen might be better situated to make that forecast. We believe there will be an increase through most other areas of the country.

Mr. **Jeffords**. What about in 1986 with the $11.60?

Mr. **Barker**. I am not sure I heard, sir.

Mr. **Jeffords**. I think you answered for 1985 and I asked through 1986.

Mr. **Barker**. Through 1986 we are projecting—I think John could correct me with numbers—but about 139 billion pounds production, which would be a slight increase from last year.

Mr. **Jeffords**. Thank you. Mr. Spencer.

Mr. **Spencer**. Mr. Jeffords, just on my opinion from seeing some basic figures, and I say this is my opinion, I would assume that at least my part of the Southeast would probably see a slight increase in 1985, but I am afraid that we would see somewhat of a drastic decrease, a permanent decrease, over the period of the next couple of years after that.

I base that on the fact that I don't believe that at $11.60 many of our producers are going to be able to increase their herds or overcapitalize any more than they have already done. So they may try to on a short-term basis, but on a long-term basis I am not that optimistic.

Mr. **Jeffords**. Thank you, Mr. Chairman.

Mr. **Olin**. Mr. Chairman, thank you.

I would like to ask the followup to the question that Mr. Jeffords asked. I am not much of an expert in this area but I am learning a little bit about it.

I would take it that if the price support level goes down to $11.60 that the fluid milk level may or may not follow that drop. It might not, particularly in the Southeast. The producers in that area by and large have not been producing to sell to the Government anyway, and they have been operating off the regular market.

But I wanted to ask Mr. Barker a question. If we had a sustained level of $11.60 as a support price and the Government continued to purchase, wouldn't that still be a very, very attractive level to many areas of the country, and wouldn't that still continue to generate a surplus of milk that is diverted for manufactured purposes, and wouldn't that tend to, if that level prevails, still give us quite a surplus problem over a period of time?

Mr. **Barker**. I think our short-term projection, and I agree with the Dairymen, long-term $11.60 very likely, depending on the rest of the agriculture community, of course, would result in a rather stagnant industry and perhaps lose a good portion of them.

I am not sure that is a direct answer. We believe very much there is one national market and pool of milk in this country, and whether we have the southern part of Texas or the Southeast, we are all benefactors of the national support program, so our price would follow. The Southern areas would be more able to adjust their fluid price under present circumstances, and there could be some changes in the milk orders that could allow them to more nearly meet those needs.

Mr. **Olin**. I am thinking really more of the manufactured products that apparently can be produced at a good deal lower level than that $11.60.

Mr. **Mengel**. If I could just follow up on that question a little bit, this year, with an effective farm price of $12.10 we saw that just about 45 percent of those producers who didn't participate in the program actually reduced production. So that would indicate that even at that price level that we were probably below the average cost of production on many farms.

Should you reduce that down to $11.60, I think you will find a great many more farms be put into that marginal category and I think you will see a greater reduction just from the price at $11.60.

Mr. **Olin**. OK, fine. Thank you.

Mr. **Coelho**. Thank you, Mr. Olin.

Mr. Barker, when you said your staff was looking at the marketing order adjustments in order to take care of some of these problems that Mr. Spencer, in particular I think, pointed out, if you would provide those suggestions to the subcommittee, we would be interested in some way to alleviate some of the Southeast's problems.

I would join with Mr. Jeffords in saying that the farmers in the Southeast did not have to join the program, they were not required to, but I recognize the incentive to join up. But hopefully, maybe through the marketing order system, we can make some adjustments and alleviate some of the problems in that area of the country. We need to have everybody involved and in support of what we do, so we want to look into that, and we appreciate your help.

Mr. **Jeffords**. Mr. Chairman, may I ask one more question?

Mr. **Coelho**. Certainly.

Mr. **Jeffords**. Mr. Mengel or Mr. Barker, we have scheduled two price cuts within 3 months, one in April and one in July. Could you give me an idea what the impact will be on the cheese people or others as far as their inventory, the impact that that will have on them, and whether or not it is wise to have price cuts of that magnitude within 3 months, or whether they should be spread out more?

Mr. **Barker**. I can speak in a general way and ask John, perhaps, specifically.

We believe the sign or the signal of the price cut come July would have a tendency for the trade to wait for that price cut and let the Government own all the stocks they could in the meantime, other things being equal. John may have a more specific reply on the cheese angle.

Mr. **Mengel**. I think that is a correct analysis. You are not going to produce and put in your warehouse something that you know is going to be worth 50 cents less next week or the next day. So the cheese manufacturers, I am sure, will be encouraged to sell as much of their inventory to the Government as possible and go into that short fall season with the bare minimums, or what they think are the bare minimums of an inventory which, if they guessed wrong, could lead to higher prices this fall as they have to pull that back out of Government storage.

Mr. **Jeffords**. I guess maybe I want a more specific answer. It would be better to spread those price cuts out or is it worse to do that?

Mr. **Barker**. If you are suggesting maybe half in July or half in——

Mr. **Jeffords**. Well, basically what I am suggesting is postpone the July cut until October.

Mr. **Barker**. Congressman, I think there is a distinct possibility there may be more people in the next 60 or 90 days sell out following out the end of the diversion program than we might anticipate, so I don't think we really know what production will do in the next 120 days.

We have the best forecast, according to the USDA and other economists, but I think it is very possible it may be too early to know whether the 50-cent drop should take place. I am sure the projection will be purchases above 5 billion, or at least that is the best estimate now, but it is very possible that perhaps it shouldn't be taken at all.

Mr. **Jeffords**. So, in other words, your feeling is that it would be better if we had the time to really understand as to what that 50-cent cut caused, rather than rush two of them together?

Mr. **Barker**. I rather believe we don't know what production is going to do completely following the diversion for 60 or 90 days, and there may be more cattle dispersed than we know now.

Mr. **Jeffords**. Thank you.

Mr. **Coelho**. Mr. Stenholm.

Mr. **Stenholm**. In response to this question this morning, as far as a base period, if we are going to have a base period for any purpose, whether it is a standby diversion or for any other purpose, the answer was given the most recent 12 months.

Do each of you agree to that, or do you have another version?

Mr. **Spencer**. Well, sir, I am so against a base period I find it hard to answer the question seriously, but I don't know.

Mr. **Stenholm**. I understand if you are philosophically opposed to bases, but again, I would like you to answer the question. Eliminate your philosophical opposition and try to help me with trying to get the best possible base period if you are going to have one.

Mr. **Spencer**. To me, personally, it would be the most recent time.

Mr. **Stenholm**. The most recent 12 months. Everyone agree with that?

Mr. **Spencer**. Yes, sir; because we had such a disastrous 1983 and the first 6 months of 1984 because of the drought and its lingering effects in the Southeast that we were abnormally low. We have just recently begun to pick up production back to as somewhat a normal level as possible.

Mr. **Barker**. Congressman Stenholm, if I might answer, we have discussed to try to achieve fairness, perhaps to consider an average of 2 or 3 years, but the most recent 12 months would be looked at, I think, first with perhaps more favor.

Mr. **Stenholm**. No longer period than 3 years under any circumstances.

Mr. **Barker**. I think very true, that would be our position.

Mr. **Stenholm**. Also, I would like to ask each of you to respond to me for the record on the standby authority question—again disregarding philosophical opposition.

Regarding the question of a trigger, how you trigger a standby authority, how we would phase it in slowly to avoid some of the problems, how we take care of the regional problems, the suggestion that I have asked you to look at as the bid basis. Those three concepts I would appreciate having your best judgment on.

Mr. **Coelho**. He wants that in a sentence or less.

Mr. **Stenholm**. I really don't want it today, Mr. Chairman. I want it as we get into the deliberations. It is something that I would like to have input on, but no answer today. Thank you.

Mr. **Coelho**. Thank you, Mr. Stenholm. Mr. Stenholm is requesting that you provide it for the record and we would appreciate it if each of you would.

[The information follows:]

MA [illegible]

FARMERS UNION
Milk Marketing Cooperative

May 13, 1985

Honorable Tony Coelho, Chairman
Livestock, Dairy & Poultry Subcommittee
House Committee on Agriculture
1301 Longworth House Office Bldg.
Washington, DC 20515

Dear Tony:

Thank you for your letter of April 19, 1985, soliciting the views of Farmers Union Milk Marketing Cooperative on Congressman Stenholm's four questions and the problems of producers in the Southeastern U.S. Please excuse me for our late response. Your letter didn't reach us until May 2.

1. We believe something in the range of 5 to 7 billion pounds milk equivalent is an appropriate trigger level for a standby milk diversion program.

2. We feel the provisions of the Milk Diversion Program that recently ended were sufficient to prevent disruption of the beef industry and that the 1984 experience demonstrated that. We would not necessarily be adverse to new language in this regard so long as any added provisions do not impair the effectiveness of a milk diversion program.

In this regard, there is one minor change we recommend that will encourage producer participation in a future MDP by removing an objectionable feature that hurt during the sign-up last time.

The provision allowing the Secretary to reduce individual MDP contracts pro rata if the total sign-up is excessive is appropriate. However, many producers were frightened by the fact that their contracts could be unilaterally altered and they would still be bound to them. We suggest a provision be added that would permit a producer who signs up to opt out of his contract by notifying the Secretary within a specified time period after receiving notice that his target reduction level has been reduced due to excessive sign-up. If a volume of any significance cancelled under this provision, the Secretary could reallocate it among those who did not opt out, bringing each of them closer to their original reduction target. This provision would not impair the Secretary's ability to control and limit the total milk volume participating in the MDP, while furthering the "voluntary" appeal of the MDP.

In practice, few farmers are likely to opt out of their contracts as a result of a pro rata reduction in target percentages. However, more are likely to sign-up knowing they have the termination option in the event their contracts are amended.

3. We have many questions and some doubts about the workability and impact of a bid basis sign-up. However, we have not seen any actual proposals in this regard and are certainly willing to weigh the pros and cons of such a proposal if someone has one.

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4. We believe the federal treasury should be responsible for CCC purchases up to roughly 7 billion pounds of milk equivalent. In our view, this amount is purchased for reasons other than imbalance between domestic supplies and demand.

Specifically, USDA needs 3 to 4 billion pounds to meet its food program commitments. Additionally, the U.S. imports 2 to 3 billion pounds of dairy products (excluding casein), much of it often subsidized by foreign goverments, primarily for the purpose of maintaining and enhancing the U.S.'s relationship with key allies -- the European Community, New Zealand and Australia. These import levels have little to do with the economics of the domestic or international dairy industry... they are clearly elements of this nation's foreign policy and, therefore, should be financed by all citizens. Finally, there is the problem of unlimited, uncontrolled imports of casein which are eroding markets for traditional dairy products produced from domestic milk, most notably mozzarella cheese. Again, U.S. policy regarding casein imports is primarily an element of foreign policy because of the importance of this export to key strategic allies. The cost of this policy is unfairly heaped on domestic milk producers when, in fact, it is the price this nation pays in pursuit of its foreign policy objectives. Therefore, this cost should be borne by all citizens.

The casein import problem is so touchy for the myriad of interests affected it is difficult, if not impossible, to obtain hard data on the true impact of casein on domestic markets for dairy products. However, we believe that casein, along with other quota and non-quota dairy imports and products purchased for program use, easily accounts for 7 billion pounds of CCC purchases. Therefore, we believe all taxpayers should share the cost of removals up to this level.

We can agree to producer responsibility for the cost of purchases beyond 7 billion pounds, although we believe casein imports continue to be a contributing factor to purchases in excess of 7 billion pounds.

We are not persuaded that consumers need or are entitled to any further price cuts for dairy products at the expense of milk producers. American consumers enjoy the lowest prices for the highest quality food in the world. Dairy products, by any measure, are a good buy and have steadily become cheaper in real terms over the years as producers and processors have improved productivity. World market prices for dairy products are an unfair and unreasonable yardstick for domestic prices, since they are heavily influenced by policies of various governments and would not prevail if the U.S. domestic market were dependent, even minimally, on imports to meet consumer demand.

Finally, regarding federal milk marketing orders in the Southeastern U.S., we are vigorously opposed to any changes designed to insulate producers there from or temper the impact of national policies adopted to achieve national policy objectives. We are not naive about the political considerations you face dealing with the Southeast's problem, but we cannot accept such accommodations in conjunction with a national price support policy that may well displace thousands of producers in the Upper Midwest.

Tony, it is survival time for milk producers. Producers in the Upper Midwest are prepared to work hard to assure their survival and are confident they can compete successfully with producers in other regions... provided it is a fair competitive setting. We recognize the challenge to our region posed by producers in your home state. We have sought no government protection from their aggressive entry into markets for manufactured dairy products that the Upper Midwest has historically dominated. Producers here are prepared to compete and the end result, whatever it may be, will be what's best for the industry as a whole and our customers -- U.S. consumers. There is no merit to or benefit to be derived from excusing Southeastern producers from the reality all milk producers face -- except perhaps the benefit of Southern support for the dairy section of the farm bill. However, in our view, protection for Southeastern producers under the federal order program is too high a price to pay for their support. We would prefer a totally deregulated domestic dairy industry to one in which a region is excused from the competitive realities of the industry.

Again, we appreciate the opportunity to comment on these important questions and commend you for aggressively soliciting such views from us and other organizations. We are greatly encouraged by your stewardship of the subcommittee during this critical session for dairy farmers and other agricultural producers. Your willingness to hear all sides and prod interested parties toward a consensus is a breath of fresh air.

Keep up the good work and don't hesitate to contact us if we can assist you in your efforts.

Sincerely,

FARMERS UNION MILK MARKETING COOPERATIVE

Doug

Douglas J. Caruso
General Manager

DJC:pc

Mr. **Coelho**. I appreciate the panel coming today. We appreciate your comments and your concerns about the program. I am sure we will see more of you in the next few weeks.

The next panel will be made up of Mr. Randall, Mr. Tipton, and Ellen Haas.

Mr. Randall, we are prepared for your testimony.

STATEMENT OF DONALD A. RANDALL, GENERAL COUNSEL AND EXECUTIVE VICE PRESIDENT, NATIONAL INDEPENDENT DAIRY-FOODS ASSOCIATION

Mr. **Randall**. Thank you, Mr. Chairman.

The National Independent Dairy-Foods Association is a national trade association of independent proprietary dairies and processors, manufacturers and distributors of fluid milk and a variety of dairy food products.

The disastrous legislation of recent years haunts us. We are all familiar with the multimillion-dollar payments to agricorporate dairy producers who are using their diversion money to increase their herds and to improve their production facilities for 1985 and thereafter.

While the diversion program helped reduce CCC purchases by about 30 percent, it did not produce a long-term solution to overproduction. This diversion program accounted for only 25 to 30 percent of the decrease in CCC purchases.

Thousands of our farmers have not benefited from this scandalous 1983-84 program. They have suffered the indignity of being taxed 50 cents per hundredweight to pay other distant farmers not to produce milk. Many of these large, new dairy farmers had no valid business reason for increasing production of milk except for our Government's misguided, overindulgent support prices of the past 7 or 8 years.

There must be no diversion programs, quotas, supply controls or supply management schemes. Specifically, the diversion program failed, in our judgment, because it did not provide a permanent solution. It caused milk shortages in the Southeast. It discriminated against producers and processors in regions which were not surplus.

It represented just another Government program attempting to cope with the dynamic and fluid market forces and all of those Government programs have been proven to have failed in the past. NIDA's members got no price break as a lower support price should have meant.

In fact, if you look at the record of the prices that were actually paid, the blend price throughout the United States was $13.36, as opposed to a $12.60 support price in effect at that time. So when you are talking about $11.60 prices, you have to understand that those are the support prices if they sell to the Government and not the prices that the producer cooperatives are extracting by over-order premiums and other means.

Consumers should have received lower prices, but they didn't. Prices went up 2.8 cents and they could have gone down or should have gone down. If the program had just barely balanced itself at 20-percent participation, it would have been a drain on the Treasury had it gone above that 20 percent, and it would have been a significant drain had it gone to a 50-percent participation.

I would conclude by saying that the foremost criticism of the diversion program is that it had to be put into effect to try to deal with an overall failed dairy program. We have economic crisis among some of our dairy farmers. We have a surplus that is a near national disgrace and we have burdened the taxpayers of this Nation with multibillion-dollar payments, and all of these evidence a failed dairy program.

To now evaluate the dairy program as a potential measure to deal with the much more basic problems in our price support programs and our market orders is somewhat akin to devoting efforts to get man back from the Moon before we have evaluated the feasibility of sending him there or finalized the plans for getting him there in the first place.

Our specific recommendations with respect to market orders are contained in our prepared statement, and we generally adhere to and support the administration's general philosophy with respect to market-oriented approaches in the farm bill and the MIF program which you will hear about later.

We would be glad to respond on the more general farm bill measures at a later time. We hope you will include our entire statement in the record.

Mr. Coelho. Without objection, it will be so included.

[The prepared statement of Mr. Randall appears at the conclusion of the hearing.]

Mr. Coelho. Mr. Lin Tipton.

STATEMENT OF E. LINWOOD TIPTON, EXECUTIVE VICE PRESIDENT, MILK INDUSTRY FOUNDATION AND INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

Mr. Tipton. Thank you, Mr. Chairman. I have a cold and am about to lose my voice, but maybe I can have enough reserve power for another 5 minutes.

Mr. Coelho. We won't put you under much questioning. We will be nice to you.

Mr. Tipton. That was my excuse.

The Milk Industry Foundation and the International Association of Ice Cream Manufacturers utilize about two-thirds of all of the milk that is consumed in the United States, or utilized in their products.

As we stated before on numerous occasions, we do favor the price support program and, in fact, think that it has worked really quite well for a good many years, particularly until in the 1980's when we got into the severe problem of the very large surpluses and the mechanism that we were using to adjust support prices obviously became incorrect.

To get to what we would propose and make a few comments on the diversion program, we would like very much to see a price support program that had mandatory price reductions whenever CCC acquisitions exceed some specified level. The level that we think is appropriate is about 4 billion pounds, and that would be equivalent to purchases amounting to $750 million to $800 million. At that point, the Secretary should be mandated to reduce the support price.

We would, by the same token, suggest that when the CCC acquisitions drop below 2 billion pounds, the Secretary should be mandated to increase the support price at that point. So we would continue to supply or have available in the Government a reserve supply that is equivalent to about what the Government has utilized over the last several years.

Mr. COELHO. You, in effect, are supporting the trigger mechanism. It is just that you are disagreeing what triggers in or triggers out; is that correct?

Mr. TIPTON. Yes, our proposition is that it would be done by price. We are very much opposed to the diversion program, opposed to any kind of a quota program or any kind of a base program, whether it be effective immediately or whether it be in a standby position.

One of the primary reasons for that is that we see those kinds of programs upholding the prices higher than are really necessary to get an adequate supply of milk. Clearly, we got a very large supply of milk in the United States because our prices were out of line with other agricultural enterprises and we got an enormous amount of milk. They are continuing to be out of alignment and our best estimates are that if the price is reduced to $11.60 that we will probably continue to get some surplus milk, just as the National Milk Producers Federation proposed, for the next couple of years and then a gradual reduction.

So we think there is going to have to be more authority for more price reduction.

I know there has been testimony or question about what has happened to the cost of the program as a result of the diversion program. I must point out that although the program cost $1½ billion, as was stated by the Government people this morning, there were considerable amounts of receipts that have come in that have reduced that cost this year, that next year the payments will go out, so they will not be in balance. Over the 15-month period, the receipts from the 50-cent assessment should about equal the expenditures, but that is not true in either one of the fiscal years that you will see independently.

The purchases continue high, and in the Southeastern part of the country this past year there was a very severe shortage that occurred as a result of the diversion program and possibly because of the heat, but there was a very severe shortage. That caused the milk prices in the Southeast to increase very substantially, as they had to expend additional money to haul milk in from other areas.

That higher price in the Southeast amounted to about, I believe it was, 7 cents a gallon of milk, and with the CCC price support program costing about $1½ billion, and with what we figure the prices being, about $1 higher than what they really ought to be, we figure it is costing American consumers just about $2.9 billion to $3 billion a year for the dairy price support program, and I think you have to include both of those costs legitimately. They are part of the cost of the program.

I thank you very much, Mr. Chairman.

[The prepared statement of Mr. Tipton appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Mr. Tipton. Ellen Haas.

STATEMENT OF ELLEN HAAS, EXECUTIVE DIRECTOR, PUBLIC VOICE FOR FOOD AND HEALTH POLICY

Ms. HAAS. Thank you, Mr. Chairman, and members of the subcommittee.

I would like to summarize my statement and ask that the full statement be in the record.

Mr. COELHO. Without objection, that will be done.

Ms. HAAS. As you know, consumers have an enormous stake in U.S. dairy policy. They spend more than $44 billion on dairy foods annually, and depend on dairy products for protein, food energy, and a broad range of other nutrients. In fact, milk is a nutritionally unequivalent product. More pounds of dairy products are consumed than either grain products or meat products, and for the poor, who spend up to 40 percent or more of their income on food, reasonably priced dairy products are a matter of critical importance.

Today's dairy program, however, as we recognize, although there are varying opinions on this, is not working well. A look at the unprecedented surpluses being accumulated by the Federal Government at unprecedented cost to the American taxpayer, is just one indication of the program's trouble.

The extent of this surplus is great. Of the $17.5 billion spent since 1950 by the Commodity Credit Corporation on dairy price supports and donations, virtually half has been spent during the past 5 years. The last 5 years' overproduction can be traced directly to the inability of the price support program to reduce milk production incentives when surpluses grew.

Program changes since 1981 really only had short-term successes in dealing with the long-term problem. Unless bad weather or unexpected changes in export markets pushed feed prices sharply higher, the industry is unlikely to balance production and use, even if price supports are frozen at $11.60 per hundredweight for the coming years.

While the diversion program has not worked sufficiently and we are still paying $1.8 billion as taxpayers for this program, reducing the price support level, which was part of the 1983 bill, has helped somewhat. There has been an increase in commercial sales with the stable prices of the last year. Sales increased by 3 percent, or 3.5 billion pounds, the first real increase in 5 years.

Participation, on the other hand, in the program is low, about 38,000 farmers. Participants agree to cut production 7.5 billion pounds, which was really just 5.4 percent of 1983 production.

Furthermore, producers that had reduced production for any reason were eligible for payments, so it really comes down to 3 or 4 percent of 1983 production. However, the 1983 act does not appear to have improved the long-term prospects, and I think that is what we have to be concerned about, how we can balance supply and consumption.

The reductions in cow numbers mean the herd is heavily culled, and now relatively young, with superior capacity. Future production levels will depend heavily on the level of economic incentives, milk prices, and feed costs. While the 1983 program likely did diminish production, the sharply higher feed costs caused by the PIK Program and drought in 1983 and 1984 may have had more to do with the herd reductions than the 1983 program simply because the feed cost impacts were so much more widely spread.

Returns per hundredweight of milk in 1984 dropped 43 percent below the 1981 level, and for many producers returns were negative for the first time in years. The 1984 production decline is unlikely to be equaled this year in 1985 or in the near future in the absence of new price or cost shocks since the factors that caused them seem unlikely to be repeated.

More important, the economic returns to milk production are likely to increase in 1985 and remain relatively steady in the intermediate future. The main factor affecting the cost of milk production, as I have heard years and years in this committee room, is feed costs. Current corn surpluses are so large and export markets are so weak that there is little likelihood of feed price cost pressure through the next 2 years.

Relatively strong economic incentives to produce milk can be expected in the next several years.

The foregoing economic trends indicate that a continuation of current policy and extension of the diversion program were a failure to reduce the level of price support implies a continuation of our current problems. The outlook for low feed costs and only slow increases in overall production costs imply little reduction of production incentives.

With production growing slightly faster than population, the industry faces the requirement to reduce herds at least as fast as the growth in output per cow.

I recognize that this hearing is just to talk about the 1983 act and not to look at alternative policies. Let me say that in 2 or 3 weeks, for the first time that I know of anyhow, a national consumer group will be releasing an economic analysis of dairy policy alternatives, and we will be sharing that with the subcommittee.

In conclusion, I would like to just make two points and wrap up by saying that first the continuation of current policy, even with supports lowered twice this year to $11.60 and frozen there for the coming 4 years, is not likely to balance supply and consumption.

Next, through the process of continued market intervention, milk consumption has been reduced and prices held above levels they would have reached had competition required production and market adjustments. The programs have operated at vast Government expense.

While the basic concern and objectives of this program are still to assure adequate supplies of milk, and they have not changed since the beginning, recent experience and our experience these recent years shows us that these objectives are not enough to sufficiently emphasize consumer interest.

There are four very brief additional criteria that are needed.

Mr. Coelho. We will take your word that there are four.

Ms. **Haas**. There are four and they are important to be considered so that this subcommittee can balance the interests of consumers and producers and end up with more equitable policies than we have seen in recent years. Thank you.

[The prepared statement of Ms. Haas appears at the conclusion of the hearing.]

Mr. **Coelho**. Mr. Jeffords.

Mr. **Jeffords**. Thank you. I always enjoy talking with you, Ellen and trading figures back and forth here.

It still amazes me that the consumers still like to try and pick on the dairy program when the results are so dramatic in their favor.

First of all, from 1982 to 1984 the price per gallon of milk to the farmer has gone down 2 cents, the wholesalers or whatever has added about 1.4 cents, so even with the middleman increases there, there is a net gain to the consumer over the past few years.

Second, the figure of $44 billion spent by the consuming public on dairy products, if dairy products had gone up like all other food, they would be paying $9 billion more a year. So if the program did cost, as was indicated, adding altogether the two items as it was done by a previous witness, that is still a net saving to the consumer of somewhere between $6 and $7 billion.

So it is hard for me to figure out how the dairy farmer is such a terrible person when I see those figures. And then the program gets attacked that we just got finished, and I say wait a minute, wait a minute. What happened with the program?

It is the only program that saved any money. We said that it would save $1 billion. It saved $1 billion. We said that it would get rid of the surpluses. It got rid of the surpluses. We said it would reduce the amount of production. For the first time in 5 years, production went down.

Then you come before us and say what a terrible program. I say, as compared to what? It is the only farm program that worked last year and it did everything we said it was going to do. In addition to that, we put a good promotion program in effect, and in addition to that, the cost of the program which is being ridiculed was paid for by the farmers themselves and not the taxpayers.

So I must say that I am amazed, as I always am, when you come before us, and especially when I look at the productivity figures of industries. Dairy over the past few years has been the most productive in the sense of productivity of any industry in the country, and that is what it is all about, and those savings have been passed on to the consumer.

We are looking now toward further increases. In fact, the productivity which is right now in the experimental stage indicates that the consumer again is going to get tremendous advantages of lower production cost over the next decade or two and we are going to be able to provide people with low-cost dairy products, good wholesome food of nature's best, and somehow the dairy farmer is the enemy of the consumer, and I must say that I cannot understand that charge.

Why don't you folks pick on somebody else?

Ms. **Haas**. Congressman Jeffords, there are a lot of points to answer there.

To begin with, as you well know, the consumer Public Voice for Consumer Food and Health Policy has never picked on the dairy farmer. We have been very careful to recognize the hard work, the sincerity, the productivity gains of the dairy farming. However, the dairy programs should serve the interests of both farmers and consumers and, in fact, part of the reason we have seen some successes in the 1983 act were the price reductions that took place, the incentives to the farmer to cut back in that production.

The diversion program itself was not the reason for the reduction in the amount of the surplus. But we are talking about a surplus that was overwhelming before that law was passed, and it has just become somewhat less disastrous. $1.8 billion in payments, our taxpayer cost, 4 years ago would have been unheard of. Now we are accepting that as ordinary. I think we have to take a look at that in a year of deficit reduction.

The other point that you made about productivity is an important one and one our study looks at because those productivity gains are significant in dairy and, therefore, the cost to the consumer should be significantly going down and we have not seen that kind of sharing of those productivity gains.

I won't go back and forth with you in numbers like we often do, but we will leave that for the farm bill kinds of discussions.

One final point is, in those reductions in price, there is a farm-to-retail spread that we know exists, that the consumer cost depends on all of those incremental costs. The price support level is the floor for it all, and 50 percent of that cost to the consumer is for the marketing.

So we don't see those significant reductions in the supermarket yet, but over time, and letting this program continue on its way, with its reductions that are to take place in April and July, you are going to see more reductions in the supermarket. If you cut those reductions off, you are not going to see any savings and any increases in consumption.

Mr. COELHO. Mr. Stenholm.

Mr. STENHOLM. How much should we spend on the dairy program every year, Ms. Haas?

Ms. HAAS. I don't have a number. I think my objective would be to balance consumption and production.

Mr. STENHOLM. Zero cost?

Ms. HAAS. If you can bring it in balance. I don't have a panacea. I don't think that $1.8 billion of surplus we are talking about, sitting in warehouses, for poor people who cannot have access to those because the price is too high is an equitable policy.

Mr. STENHOLM. I agree with you. I am just trying to get a range of what you believe would be a permissible level.

Ms. HAAS. In my prepared testimony, I think we do talk about our proposal, or guidelines of that proposal, and it is not quite the trigger you are talking about, Congressman Coelho, but it is the idea of a surplus down to perhaps 2 to 4 billion pounds, and a cost that would certainly be in the hundreds of millions area rather than billions.

Mr. STENHOLM. OK. Linwood.

Mr. TIPTON. We didn't go at it in terms of the amount of money that ought to be expended on the program. We looked at it in terms of what is a reasonable amount of surpluses for the Government to acquire that can be utilized. The Government, prior to the 1980's, had bought for many years somewhere between 2 and 4 billion pounds. The average is about 3.1 or 3.2 billion.

I have asked the people down at the Department of Agriculture what their normal utilization could be, and they say about 1 billion pounds. That would be that they would utilize, that even if they didn't have surpluses, they would probably go on the market and buy 1 billion pounds of milk products to satisfy their commitments.

So putting all those together, we thought 2 to 4 billion pounds of purchases was a reasonable range, and as I say, 4 billion would equate to about $750 to $800 million.

Mr. STENHOLM. Mr. Randall.

Mr. RANDALL. We used the same figures, about $800 million top, but it is not just the cost to the Treasury that should be considered. There is that cost to the public for the product, and if we design a mechanism or system for administering the dairy program that has a high, built-in cost and great inefficiencies in the processing, and that is reflected in higher costs to the public, it means less consumption.

That is what we are concerned about, so both of those are important.

Mr. STENHOLM. Absolutely. I believe I am correct that all three of you oppose or did oppose and do oppose the diversion program, standby or otherwise. At least two of you, I guess all three of you, have testified to a lowering of the price support.

If you lowered the price support and had a diversion, would you still oppose it?

Mr. TIPTON. We would, and one of the primary reasons is that a lot of people have said that the diversion program is the reason why there is a reduction in CCC acquisitions. The fact of the matter is that the decrease in production accounts for only about 25 percent of the decrease in CCC acquisitions. There is another 25 percent, or roughly, that is accounted for by having dumped milk on the farm or having used it on the farm.

On-farm use of milk has virtually doubled since the diversion program went in, so it is true that marketings were down but it wasn't a decrease in production.

The other 50 percent of the decrease in CCC acquisitions is the result of increased consumption, and it really is amazing to me why there isn't more interest on the committee and within some of the dairy sector in actually working on this problem on both sides of the equation; that is, increasing sales by decreasing the price, and decreasing production by decreasing the price, and you won't have to work nearly as hard because you will have both sides of it working to the same purpose.

That would be our proposition.

Ms. HAAS. We also would oppose the continuation of the diversion program. It takes longer that way. By giving the signal by simply reducing the price, it is a simple, direct signal to the farmer to cut production and the consumer benefits at the same time, rather than with the diversion program.

Mr. RANDALL. And it discriminates regionally very significantly.

Mr. STENHOLM. My final question for the record: I understand you all oppose it, but the purpose of this hearing was to look at the diversion program and give us input in the event the wisdom of the Congress is to have another one to design one that will work as best as possible.

I ask you the same thing: Look at the triggers, the phasein slowly, the regionalization, how you would design one that would work.

Again, Mr. Chairman, I guess the farmer in me comes out as to why I can't quite see it totally as you see it, and Mr. Jeffords, I would take issue that Ms. Haas picks on dairy farmers. We wheat farmers, cotton farmers, everybody seems to get picked on equally as far as the consumer movement is concerned.

But it is difficult for me to fully appreciate the value of lowering the price for what we are getting for what we are producing. As difficult as we are having paying off $215 billion we have borrowed today, that is the problem we have, how we can pay off our notes with less money. That is the problem we have to try to rationalize and that is why I ask you the question as to at least remaining with an open mind as to a combination of programs that does balance supply and demand at the least cost to the Treasury without literally wiping out dairy farmers in this case in droves. That is the heart of my question.

Mr. COELHO. Thank you, Mr. Stenholm.

I might just make the comment that, Ellen, the consumer movement just put out a statement that I am one of the heroes of the movement.

Ms. HAAS. It didn't count dairy.

Mr. COELHO. I hope that you are not going to end up here making me one of the bums of the movement now, so I am concerned as well. I can understand the traditional fight between producers and processors. That has been going on since day 1. Processors want it as cheap as they can get it to sell it for as much as they can sell it for, and the producer wants to produce it as cheap as he can produce it and sell it for as much as he can sell it for.

That is natural, and I understand that conflict, and so forth. The consumer should be trying to get it as cheap as he can get it, but make sure that he can get it, and that is the conflict there. I have some trouble when you have a tendency to consistently side on the side of the processor because I really don't think that is where the consumer movement is and I question it, but I will continue to work with you and hopefully continue to receive your support.

Let me ask a question: Surpluses can be reduced by exports. You have heard me talk about Public Law 480 and China and so forth. Are any of you opposed to that? Do you support that? Do you support foreign aid assistance with food programs and so forth?

Where do you come from on that, and in particular, Lin, as you are on the Trade Commission, and so forth, what are you advocating there in regard to getting rid of surpluses, particularly in dairy because of your concern about these surpluses? Ellen.

Ms. HAAS. I thought you were starting with Mr. Tipton.

We support those kinds of efforts, and I just wanted to say for the record that we are not here on the side of the processor or the retailer, but on the side of the consumer, and having served five terms as president of the Consumer Federation of America, which did recognize your voting area, your voting record did not include all of the farm bill issues. We will see what happens the next time.

The consumer and farmer do have much in common. In Public Law 480 and the question you asked, we are very supportive of that. On the contrary, though, on price support programs that hurt the consumer and raise the consumer cost, and we are at the end of it, at the end of the river, getting all the prices, and the only way to change it is to change it in the beginning and begin with the Federal policies.

So on this one we are with you, but not on the diversion program.

Mr. COELHO. Lin.

Mr. TIPTON. I think as Mr. Elkin indicated earlier, the Commission has not specifically dealt with dairy at this point.

Mr. COELHO. Why not? You are on it. I think you have the right to bring up what you want or you shouldn't have gone on it.

Mr. TIPTON. That is quite true. In fact, I brought up a number of things but we have not dealt with the issue of dairy. We have dealt, however, and the recommendations that will be forthcoming without being commodity specific, so it would apply to dairy, is a substantial expansion of the Public Law 480 program and we would be supportive of that as an industry, as well as I personally on the Commission.

But that is not commodity specific. That is in general, but that will be one of the major recommendations coming out of the group. In fact, we are meeting tomorrow to finalize those recommendations, which will be submitted at the end of the month.

Mr. COELHO. Thank you, Lin.

Mr. Randall, I am interested in National Independent Dairy Foods. Who are they? Are you a dairy farmer?

Mr. RANDALL. No; we are processors, and some of our processors have their own herds.

Mr. COELHO. Such as whom?

Mr. RANDALL. An example would be LeSeur Cheese in Minnesota. He doesn't have his own herd, but there are those that do have their own herds. Some in South Carolina have their own cows.

Mr. COELHO. Where do you represent these processors, from what part of the country?

Mr. RANDALL. From all over the country. We are in 27 States. We vary in size. Our largest processor is in excess of $250 million, but he is in sales, and our smallest ones are down to $50,000 and they are just our distributors.

Mr. COELHO. Your only affiliation is with the National Independent Dairy Foods, or are you a consultant here in town with several groups?

Mr. RANDALL. I also represent automotive service councils. I sometimes say I represent cows and cars.

Mr. COELHO. And what type of cars?

Mr. RANDALL. It is the repair industry; the small, independent repair people.

Mr. COELHO. I appreciate that very much.

I appreciate the panel's participation and their assistance.

Mr. TIPTON. Thank you, Mr. Chairman.

Ms. HAAS. Thank you.

Mr. COELHO. Mr. Anderson, Mr. Tillison, Mr. Steinke, Mr. Riepma, and Mr. O'Connell.

Mr. Anderson, you may proceed.

STATEMENT OF ROBERT F. ANDERSON, EXECUTIVE DIRECTOR, NATIONAL CHEESE INSTITUTE AND AMERICAN BUTTER INSTITUTE

Mr. ANDERSON. Thank you, Mr. Chairman. It is a pleasure to be here.

My name is Robert F. Anderson. I am the executive director of the National Cheese Institute and the American Butter Institute, and I claim 5 minutes for each. I am pleased to summarize our statements and trust that they will be included in the record.

Our members' primary purpose is to supply butter and cheese to the commercial trade. That is their business. However, we also have the responsibility under the present dairy price support program to provide the processing, the packaging and sales link between the farmer and the Commodity Credit Corporation.

We assume this task willingly, because experience has shown the importance of this link to the market stability in the dairy industry. The farmer, the processor and the consumer benefit from a stable dairy industry.

Dairying is in many ways unique, and this uniqueness is understood by world governments of countries with substantial dairy industries. In these countries, the nutritional benefits of milk and dairy products are recognized as an essential part of the diet. Milk production is afforded special legislative consideration.

Now, because of counterseasonal use and production patterns, surpluses of milk will inevitably occur. If adequate supplies are to be made available during reduced production periods, however, such surpluses are available to advance the nutritional health of less developed countries but should not be used to disrupt the markets of other countries.

World governments have dairy policies that are intended, among several objectives, to promote stability in the dairy industry. We are here today discussing the role our Government should take.

Milk cannot be set aside to wait for the market to open up. It must be sold. The product purchase program we recommend provides the measure of stability which permits the flow of milk to adjust to market needs in an orderly manner. Without stability, we could again witness the chaotic marketing conditions I saw as a youth in Iowa, farmers milk shipments halted by other farmers and by threat or by actual bloody battles with clubs, resulting in loads of milk being dumped on the ground.

This terrible scene was repeated in other States, and Congress took action to bring back stability to the dairy industry. At first, this action took the form of milk pricing, but during World War II a system of product purchasing to support prices was developed. So since 1949 the dairy support program has, for the most part, successfully accomplished its goal.

Through all its 35 years, the program has assured the consumer of an adequate supply of dairy products at a reasonable price, and the dairy farmer was assured a market. The undergirding principle of product purchases leading toward a supply-demand market will assure the stability vital to the dairy industry with a diminishing reliance on the support program.

It is also apparent, from the chart I present in my testimony, that the price support level works better if it is a floor rather than a ceiling to the market. Events also indicate that the original percent of parity equivalent index is no longer relevant.

The key to a workable product purchase program is to keep support prices at a level which is slightly below market clearing prices. This will assure a measure of stability to the producer and consumer without overloading Government warehouses or the need for the market disruptions of a Government giveaway program.

Under any circumstances, our domestic prices will probably be above levels at which the dairy products, especially cheese and butter, are available for export at reduced or subsidized prices in other dairy producing countries. Under such conditions, import controls are necessary to prevent flooding the U.S. market with imports.

Dairy price adjustments for the near future are expected to be reductions using some type of triggering level, probably based on a CCC net market removal. Therefore, the cheese industry must store its products for several months before it is ready for market. We recommend that the adjustment be made once a year, and on April 1. This is in line with the seasonal increase in production, and with an adjustment in the market, is expected.

In conclusion, we recommend that any revisions in the dairy program should retain the product purchases provision as the undergirding principle. This procedure should be coupled with a procedure that will carefully and efficiently and effectively bring about a more balanced supply and demand market in which the Government is not the primary market or price leader.

The purpose of the program should be to have the Government as a silent, noninvolved partner.

Thank you.

[The prepared statement of Mr. Anderson appears at the conclusion of the hearing.]

Mr. VOLKMER [acting chairman]. Thank you very much, Mr. Anderson.

Mr. Steinke, you may proceed, and your statement will be made a part of the record.

STATEMENT OF HAROLD C. STEINKE, VICE PRESIDENT, CONSUMER PRODUCTS DIVISION, BORDEN, INC.

Mr. STEINKE. Thank you. I will attempt to simply summarize it.

My name is Harold Steinke. I reside in Columbus, OH, where I work for Borden. Borden operates 58 dairy plants in 19 different States, so we have a great deal of interest in the Government's price support program since we spend more money for milk than we do for anything else.

As Mr. Elkin said earlier, our price support program must be dependent entirely upon domestic markets. I would recommend to this subcommittee that we stop dreaming about exports. International markets are thoroughly saturated already, and unless our taxpayers want to subsidize us with a tremendous amount of money, there is no way that we can get into those markets.

Second, as Bob Anderson just mentioned, with milk being produced and marketed daily and not being storable, dairy farmers cannot withhold milk from the market waiting for a better price, nor can we who buy the milk afford to wait until a better supply or a cheaper supply comes along. Our products must be packaged and sold while they are still fresh.

That brings us to our much discussed purchase program as a part of the support price program. It has worked. The purchase program's most important feature is that since 1949 it has worked. We have had some problems in the past few years because we failed to allow flexible pricing, but if we go to a flexible pricing with support under a purchase program, it will work as well as it has in the last 35 years.

We heard a little bit today about producer financing of programs. If producers wish to participate in financing their own milk support program, we would support that concept, using the kind of assessments we have had the past 2 years, either put them on temporarily or take them off temporarily. This was a much maligned so-called milk tax, but it has worked and it was very, very orderly.

So if we can use a simple approach to a dairy program which involves the purchase of storable commodities at flexible prices and with the assistance of a producer-financed program based on assessments, we will have the desired results at very reasonable cost.

Some of the things we did consider we look on with disfavor. One of them is the administration's approach by a system of target prices and deficiency payments. To us, this looks like nothing more than a subsidy to consumers. We don't think consumers want a subsidy nor do they need a subsidy, and the placing of all of our 200,000 dairy farmers on a supplemental milk check payroll for quarterly or monthly payments hardly seems to be getting the Government out of agriculture, as many of us would like to see as a goal.

Also, the concept of parity as a price index should be laid to rest, and may it rest in peace. Those who talk about dairy parity and cost of production have a better case but still there would be distortions with the rest of agriculture against grain farming, for example, which is one of the reasons why a lot of people went into dairying because of the poor situation in other crops, and that has helped us create this big surplus.

We are opposed to farm-base plans, to farm quotas, or any kind of production controls because all those kinds of controls block progress. I don't see any reason why a manufacturer of a dairy product growing in demand can't be allowed to encourage his own producers to produce milk for him, rather than to have to go out and chase quotas in order to get a supply.

We would not like to see your subcommittee endorse any program that perpetuates inefficiencies or fails to reward those who improve productivity because we know that in order to grow and prosper, every activity in the dairy industry chain, the farmer, the milk hauler, the processing plant, the distributor of dairy products, the retailer and the consumer must be fairly treated by our Government program.

Borden is proud to have been a member for 128 years of this great dairy industry because it is one which has really benefited society in general.

Thank you very much, gentlemen.

[The prepared statement of Mr. Steinke appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much, Mr. Steinke.

Mr. Tillison, your statement also will be made a part of the record and you may summarize it if you so desire.

STATEMENT OF JAMES E. TILLISON, EXECUTIVE DIRECTOR, WISCONSIN CHEESE MAKERS ASSOCIATION

Mr. TILLISON. My name is James Tillison. I am the executive director of the Wisconsin Cheese Makers Association. Our membership is made up of 170 manufacturers of butter, cheese, and also wholesalers of dairy products in 12 States.

In "Dairy Background for 1985 Farm Legislation," a publication prepared by the USDA, there are a couple of points that are raised that should be taken into consideration.

Milk has highly inelastic demand; in other words, the consumption response to price changes is initially low. Because of this, the term "market clearing prices" that the administration uses basically applies to the supply side. Some farmers and some manufacturers will bear the burden of clearing the market if the administration's program is adopted.

Second point: The milk supply is responsive to price changes in the long run. To quote the report: "Most supply adjustments come the first and second year after a price change, not in the current year. The effects of support price changes aren't evident until 2 to 3 years after they occur."

In 1979, production was 4 billion pounds higher than 1978. In 1980, 5 billion pounds over 1979. In 1981, 5 billion pounds over 1980. In 1982, only 2 billion pounds over 1981.

The 1977 farm bill keyed in price increases which caused production increases in part in 1979, 1980 and 1981. In October 1980, the support price was frozen; 1982 production increases decreased.

The full effect of the December 1983 price drop will not be seen until 1985. To key in yearly drops automatically will reap a heavy toll in the long run on the industry and ultimately the consumer. The industry needs a stable, long-term dairy policy free of political tinkering.

At present, the cheese market is totally disrupted because of the possible April 1 and July 1 price cuts. Buyers' normal patterns have been disrupted by fear of inventory devaluations the cuts will cause. As a result, the CCC is buying more cheese than they normally would at this time of year.

In the new legislation, don't set specific dates and specific amounts on which the support price will drop. It is highly disruptive, as I said. But if you must, do it once a year, on January 1, immediately after the peak demand period when inventories are at a low level and the impact will not be so disruptive on the marketplace.

Finally, two things: First no Government dairy stabilization program will work without including provisions for the manufacturer. Price will bring supply and demand more into balance, but because their cycles are not synchronous, there will always be a surplus of 3 to 6 billion pounds. A surplus in this range is necessary to assure consumers adequate supplies at reasonable prices. Farmers and manufacturers should not bear the burden of trying to get into production and get out of production based on the whims of a Government program.

Second, give the industry a specific objective, including a timetable, and I believe we can meet it. The statement, "We must reduce Government cost of the dairy program" is not an objective; it is a desire. Reduced Government cost for $750 million for the marketing year ending October 1, 1987 is an objective. Tell the industry what you want and I think, working together, processors, farmers, can achieve the goals that you set for us.

Thank you very much.

[The prepared statement of Mr. Tillison appears at the conclusion of the hearing.]

Mr. Volkmer. Thank you very much, Mr. Tillison.

The next witness will be Mr. Riepma. Your statement also will be made a part of the record and you may proceed.

STATEMENT OF SIERT F. RIEPMA, PRESIDENT, NATIONAL ASSOCIATION OF MARGARINE MANUFACTURERS

Mr. Riepma. Thank you for the opportunity to appear before your subcommittee.

I am Siert Riepma, president of the National Association of Margarine Manufacturers. Our association represents the manufacturers of most of the margarine consumed in this country.

Normally, the margarine manufacturers have no desire to participate in dairy policy hearings. The dairy industry is a thing of itself and while we have our relationships with it, we do not want to feel that we are intervening in it. However, this time we have no choice.

Since the price support was raised years ago and the enormous butter surpluses were accumulated, Congress saw in its wisdom to distribute hundreds of millions of pounds of free butter into emergency food centers. We believe that is a very worthy objective and that is a worthy way to use surplus butter. However, one impact of this, and I am here because I don't believe most Members of Congress are aware of this, has been a rather devastating impact on our own industry.

We have lost a great deal of commercial sales, probably something on the order of 300 million in the last 2 years or more, and a loss in money of at least $150 million. Some plants have had to discharge many employees, and there is going to be more injurious effect in our industry.

That is all past. We ask that you look into the dairy policy. Let me put it this way to you:

Short term, we favor the maintenance of the present law with the two deductions. We do not have a position on diversion.

Long term, we favor, as the mainstream here around the table does, a lower price support, perhaps starting out next October 1 at $10.60 or $11.60, along with some flexibility or a triggering mechanism so that the Secretary of Agriculture or whoever can adjust the price support according to anticipated Government acquisitions.

The main objective should be, and I am sure your subcommittee agrees with me, to avoid any more accumulation of dairy products in surplus than we really have to. Along this line, we feel that section 203(c) of the Temporary Food Assistance Act, under which the butter is being distributed, is being violated by the Department of Agriculture in its distribution program.

That section says that the Secretary of Agriculture shall assure himself that the donations do not injure normal commercial sales of agricultural produce. Certainly they have injured our sales and margarine is agricultural produce.

I would hope that in the course of your dairy farm legislation you would find some mechanism, some way, of expressing protection for our industry against such violations of law and such excess distributions.

Let me say at the same time that the Department of Agriculture has a very hard job. We all know that. It has done the very best it can to administer the distribution law.

Finally, I would like to make a point. Years ago, 35 years ago to be exact, this Congress, after a good deal of debate, established a standard for margarine and made margarine a fair-competitive product in the marketplace on its own merits and thereby encouraged all innovative foods to sell competitively and not be restricted by Government interventions of one kind or another.

I think that when the dairy support program results in large contributions of butter, free butter, on the market we are facing another form of restrictive Government intervention such as we did under the old restrictive laws.

Thank you very much for hearing my testimony. I will be glad to answer your questions.

[The prepared statement of Mr. Riepma appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much. The final witness on the panel will be Mr. O'Connell.

STATEMENT OF RICHARD T. O'CONNELL, PRESIDENT, CHOCOLATE MANUFACTURERS ASSOCIATION OF THE UNITED STATES

Mr. O'CONNELL. Thank you, Mr. Chairman and members of the subcommittee.

I am Richard T. O'Connell, president of the Chocolate Manufacturers Association. We represent 15 manufacturers of chocolate and cocoa products and we include baking chocolate, chocolate confections, chocolate syrups, cocoa for drinking purposes and chocolate-flavored milk.

Our members also manufacture chocolate and cocoa ingredients used in ice cream, bakery goods, cereals, biscuit, and cracker products.

The chocolate industry uses about $430 million worth of milk annually, principally in the manufacture of milk chocolate. Milk chocolate contains about 90 percent of the total chocolate confectionery sales and a chocolate bar contains about 20 percent milk.

I might add, Mr. Chairman, we also use about 9 billion pounds of milk sold in the form of chocolate milk.

We are all familiar with the basic purposes of the dairy program and the history of rapid productivity growth versus slower consumption increases. That is also covered in my comprehensive testimony for the record. I also cover there the statistical results of the diversion program which was instituted as a result of the 1983 Dairy Act.

We support the ending of the diversion program on March 31, 1985. It has not served its purpose, in our judgment, and there is no reason to extend it. CMA was opposed to paying dairy farmers not to produce milk in 1984 and we continue to oppose that concept.

The 1983 act does not appear to have improved longer term prospects for a balanced supply and use. If milk production incentives—price support controls—are not reduced, surplus production and enormous program costs can be expected to continue.

Mr. Chairman, the 1984 production figures indicate that the Secretary of Agriculture will have every reason to institute the provisions of the 1983 Dairy Act and reduce price supports on April 1 and July 1 as provided by the law, since the outlook for CCC purchases in fiscal year 1985 remain well over 5 billion pounds. This will result in a $11.60 per hundredweight price support.

CMA has studied the possible consequences of the three proposals: Continuing the present dairy program, assuming the price support will be $11.60 after July 1; the administration's dairy proposal; and the dairy program submitted by Senator Helms in the Senate.

Mr. Chairman, the details of our appraisal of these alternatives are in my longer testimony submitted for the record. In short, we believe a continuation of the current policy means a continuation of current problems and we are concerned that the administration's plan will lead to instability and price swings over the next several years.

The program on which we want to offer comments today is S. 616, the comprehensive legislation introduced by Senator Helms. Under the Helms bill, the dairy price support for fiscal year 1986 would be $11.60 per hundredweight. In the following years, the Secretary would set milk price support levels as necessary to stabilize Government purchases between 2 and 4 billion pounds annually. We are in favor of a program which limits Government purchases.

Mr. Chairman, we believe S. 616 would achieve a close balance between milk supply and use in the later years of the proposal. By gradually reducing supports, it would avoid incentives to overproduce, but would also avoid price instability.

However, we have some problems with the first 2 years of the proposed program. Because the price support remains at $11.60 for fiscal 1986, Government costs will remain high as net removals increase. Under S. 616, we predict a Government cost of $1.9 billion with CCC purchases of 10.38 billion pounds.

Since purchases will be 8.2 billion pounds in fiscal year 1987, the price support would be reduced only 75 cents when $1 per hundredweight reduction is needed.

In general, S. 616 adjusts dairy price supports about 1 year behind the need. We believe the price supports should be reduced at least 50 cents per hundredweight in April 1986 with another 50 cents in October. It is important to make the reductions early and steadily in small increments.

We have two other concerns about the Helms' proposal. We believe the Secretary should be given more discretion, and that is included in our written testimony. We also believe the Secretary should be required to examine the regional implication of price support changes in each of his annual projections.

The industry is very different from region to region. Some of the recent problems have come from different regional responses and failures to respond. More comprehensive regional analysis each year would improve the accuracy and usefulness of these forward looks.

Mr. Chairman, in my testimony I have reviewed a number of proposed changes in the dairy program; some rather simple, some more complex. CMA believes simplicity is the key to an effective dairy program.

The dairy program has been considered by Congress seven times in the last 4 years. All kinds of proposals have been attempted, but the one simple proposal which has never been adopted is the easiest to implement and the most economically rational: That is, simply lower the price support.

A lower price support will decrease production, decrease Government purchase and cost, and decrease the retail price of the product. The elimination of excessive surpluses and decrease in retail prices will balance the interests of the producer, the consumer, the taxpayer, and the user. What more could anyone want from a dairy program?

Thank you.

[The prepared statement of Mr. O'Connell appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you, Mr. O'Connell.

I now recognize the gentleman from Vermont for any questions he may have.

Mr. JEFFORDS. I just have one. I first of all want to thank you for coming and giving us your testimony. I wonder, and this is primarily directed to the cheese people: Should we recommend, or would it be better in the price cuts to put more of the price cut on the powder rather than on butter?

Mr. ANDERSON. I will speak to that from the butter standpoint; I cannot speak to it from the cheese standpoint.

We feel that butter sales, with all the promotion that is just going on now—it is just beginning to show some good effect—would benefit from a drop in butter prices. We understand there is some talk about lowering powder so that it can be competitive again. That would take such a drop that I do not think your two 50 cent drops would quite do it. It may be.

I do not know what the study is on; we have not studied that. It just seems, however, that butter sales could be increased with a slight drop, especially with a promotion program that is right in swing right now.

I certainly do not know what it would do to the cheese; that would throw some of the balance out as far as the value of the various solids within cheese.

Mr. TILLISON. From the WCMA standpoint, I think in putting myself in the Government's place, anytime you are buying 80 percent of the production of an industry, you might want to consider doing something to get that product utilized in the marketplace.

I think reality basically tells you that there is not a tremendous domestic market for nonfat dry milk at the present time, and frankly I do not think there ever will be a tremendous market.

One of the advantages for the cheesemaker of reducing the nonfat dry milk price is that rather than standardizing milk by removing cream and selling it to creameries, he would be able to supplement his milk with nonfat dry milk and perhaps improve his cheese yields.

Again, what the price differential has to be; what the price drop has to be before that becomes viable is a good a question, but frankly I doubt if the cheese industry could even absorb all the nonfat dry milk being produced at the present time.

Mr. JEFFORDS. Mr. Steinke, do you want to comment?

Mr. STEINKE. I think it is pretty well recognized around the world that the most artificially priced dairy product in the whole world is the U.S. Department of Agriculture's price for nonfat dry milk, and it should come down.

I do not have any thoughts as to whether it should come down more than equivalent amount on butter or not, but it certainly, it is a product which for years has kept us out of world markets. In our case, we have had to transfer plants abroad in order to maintain our world markets, because we simply could not maintain them from U.S. production.

Mr. VOLKMER. Mr. Gunderson, do you have any questions?

Mr. GUNDERSON. Thank you very much, Mr. Chairman; and I have been quickly reviewing all of your statements because I was at another meeting as you began your testimony.

Jim, you indicate in your statement: The objective of the dairy stabilization legislation in the 1985 farm bill should be to reduce Government costs and stabilize the market.

That almost sounds as if you are advocating supply management.

Mr. TILLISON. No; I am not advocating supply management. What I am saying is that based on the program that the administration has put forward, without provisions for the manufacturer, you are not going to have a stable market. If the Government, for example, gets out of buying surplus commodities, surplus milk and so forth, you bet the Government costs will be reduced; there is no doubt about that; but the market for milk and dairy products will be totally destabilized.

In other words, the consumer will see very low prices in the spring; very high prices in the fall, and so forth.

Regarding specific production control, while my membership supported an extension of the diversion program as a group, individually they would probably tell you that it had a tremendous impact on their business.

I think that you have to take a close look at, as the one gentleman mentioned, Mr. Stenholm, "What are the trip levels? What are the trigger levels?" and so forth. I do not think the diversion program can be a fine tuning program. In other words, gee, we would like to have a 4-million-pound surplus, and if it gets to 6 we should put in a diversion program.

In my personal opinion, I think the diversion program did bring down milk production somewhat. More importantly than that, I think for the first time since October 1980, when the farm bill was passed in 1983, we had a situation where we finally had a stable dairy policy to deal with from the standpoint of the marketplace.

Manufacturers could sell their product; buyers like Borden's, Kraft, and so forth could go ahead and purchase product, inventory product and so forth, because they knew where they stood. I think that, while I do not agree with the USDA that the diversion program did not work, I think the diversion program has served its purpose in a real serious situation.

Now the key is going to be if we can get stable dairy legislation in and let the marketplace function. If the USDA knows what they are talking about, and based on what they went through this morning there is a question, but in the study they put together, they did say in there that in the dairy industry it takes a couple years for the supply side to be affected by price changes.

So why do not we see what the price changes will accomplish now? As I said before, to me one of the most disruptive things in the last 4 years in the dairy industry has been the lack of some stable policy.

Mr. GUNDERSON. One final comment—and none of you have to respond today, but if you would like to in the future, it would be helpful I think to this subcommittee—I look at the new technology that is about to come onboard the dairy industry, and if we have a propensity to overproduce today, that is only going to get worse.

I think, frankly, that any kind of purchase program which is maintained during that time period is going to do two things. First, it is going to enhance the likelihood of success for the very large dairy producers, but, second, it is also going to guarantee that we are going to be revising dairy policy every year in this committee because of budget pressures.

Recognizing that you are processors or representatives of processors, I think it would be helpful to give us some insight as to what you would need if the decision were made down the road to go to something like target prices, such as a loan rate or something like that.

That may not be something you want to respond to today, but I think down the road this committee is going to need your expert advice in that area.

Mr. ANDERSON. Mr. Gunderson, you brought up the subject of innovation; I would like to speak to that. It has nothing to do with your question.

I would like to speak to the inability of the cheese industry in particular to innovate. We have an impasse between the Food and

Drug Administration and OMB that is caused by some sort of a Presidential statement that says "no more regulations."

Now, we need good food standards. We have the ability to make low-fat cheese. We cannot legally make low-fat cheese now. The reason for that is Food and Drug does not have enough funding to handle the requests. It is up to Congress to give Food and Drug enough money so they can handle our requests. If that is not it, they should get after OMB or the President or whoever it is that is causing this impasse because we need good food standards that permit us to make and innovate and make new products.

I troop around the Halls of Congress here showing powdered cheese so that we can send it overseas to Africa. I cannot get much enthusiasm from you folks. You need to pick up on this and go. We can only do so much. We need your help, too. Thank you.

Mr. Gunderson. Words well taken.

Thank you, Mr. Chairman.

Mr. Volkmer. Thank you. I have a couple of questions.

Mr. Steinke, does Borden's have any dairy herds of their own, or do you purchase all of your milk?

Mr. Steinke. No, sir; we no longer have any dairy herds. Years ago, we had a few specialized—for specialized purposes—but we are down to Elsie.

Mr. Volkmer. You purchase most of yours from what areas, basically?

Mr. Steinke. Our biggest purchase areas are Texas, Wisconsin, the South in general, and New York State.

Mr. Volkmer. Thank you.

Mr. O'Connell, you mentioned that if we just permit the support price to reduce, we will probably all be better off; we will have lower production. Everyone I have talked to, see, right now, come April 1, we are going to have the 50-cent assessment for the diversion program come up; we are going to have a 50-cent reduction, and we are going to have another one in July. And so we are going to have a reduction in our price.

Everybody I have talked to tells me that we are going to have an increase in production. Do you agree with that?

Mr. O'Connell. Yes, sir.

Mr. Volkmer. We are going to have an increase, not a decrease?

Mr. O'Connell. That is right.

Mr. Volkmer. How much do you say it should go down before we have a decrease?

Mr. O'Connell. Well, the studies we have done and some of the ones USDA has done shows that it takes a 10-percent price drop in the support price to get a 4-percent reduction in production. So if we are out of balance by a roughly——

Mr. Volkmer. Twelve percent?

Mr. O'Connell [continuing]. Twelve percent, you would probably have to have. Well, I do not think we are out by 12 percent; I think we are out by about 8 or 9 percent. About 125 to 135 billion pounds.

We look at maximum; I am talking maximum here would be about 20 percent. There is some talk here this morning about 960 to 1,010. I do not know whether—all we know is that everything has been tried. It seems it would be the simplest way, and we are encouraging a gradual reduction. We do not want a sharp change in the production patterns in the dairy industry because of our supply needs.

Mr. Volkmer. I do not know if you have evaluated; I have before me some facts here in costs of production. These are averages, of course, for different areas, but I cannot find a cost of production that would actually permit that type of price level and have very many people making any money.

Mr. O'Connell. Well, I heard witnesses this morning talking about—the range from everywhere from 25 cows up to, I think one farmer from New Mexico has somewhere between 700 and 1,100 cows. I suspect there is a substantial difference between their costs of production.

Mr. Volkmer. No question about that.

Mr. O'Connell. So to talk about an average cost of production is pretty hard to determine, and I agree with that. My point is, and our point is, that if you continue to pile up the surpluses, we have to do something to reduce that, if that is going to be a matter of agriculture policy, and we are calling for support for anywhere from 2 to 4 billion pounds, to not exceed that amount.

So we think that a gradual reduction of the price support to some level where you achieve that level of purchases would be satisfactory. I do not think there is a magic figure to that. Certainly where we are now it is going to be an excess production.

Mr. Volkmer. The only thing that concerns me with using that as a solution, the same as the administration's program, is that when we reduce the support levels so far and the price of milk starts decreasing, and that so many—we already have dairy farmers in trouble; we get more and more of them in trouble, they cannot hang on, and then we lose too many. Then we have got, let's say, not enough for Borden's and for the cheese manufacturers and for the fluid milk users——

Mr. O'Connell. And the chocolate manufacturers.

Mr. Volkmer. The chocolate manufacturers and everybody else. Then what do we do?

Mr. O'Connell. Well, I frankly do not think that—there is going to be an adjustment.

Mr. Volkmer. Turn around and tell all the dairy farmers we are going to increase the price supports again, huh?

Mr. O'Connell. That is right.

Mr. Volkmer. Oh, boy.

Mr. O'Connell. The marketplace has to—the market forces have to come into it sooner or later. This is our view of the program. There is going to be some adjustment; there is no question about it, and the market forces will come into play in time. Do not deny that.

Mr. Volkmer. I would just like to conclude by saying, Mr. Riepma, that we will have to look into or have the Agriculture Department, USDA, look into your problem.

Mr. Riepma. Oh, they have been looking into it for some time, my friend.

Mr. Volkmer. No answer?

Mr. Riepma. No answer.

Mr. Volkmer. OK. Thank you.

Mr. JEFFORDS. Mr. Chairman, I would like to clear up some of the facts here. We just paid around 136 billion pounds of production with about 8 billion surplus. If you subtract, say, 4 billion from that, you are talking of excess production of less than 4 percent. So it is not quite as staggering as——

Mr. O'CONNELL. Then I might comment, it would only be a 10-percent reduction from whatever it is.

Mr. VOLKMER. I want to thank the panel. You have been very helpful and we appreciate your testimony here today.

Our next panel, we have two persons, Mr. Ken Andersen and Mrs. Norma O'Leary, and at this time I would like for them to come to the table. I will yield first to the gentleman from Connecticut, Mr. Gejdenson, for an introduction.

Mr. GEJDENSON. Thank you very much, Mr. Chairman.

I think for most members of this subcommittee, they see agriculture as the West and the South. I can assure them in the East, at least in Connecticut—and I know my friend from Vermont here represents us well on the subcommittee—there are a number of farmers in as difficult trouble as other farmers around the country. I could not think of two better spokesmen for Connecticut than Norma O'Leary and Ken Andersen, our agriculture commissioner.

I have looked over my colleague Nancy Johnson's remarks, and she gives a good biography on both of them, so I will just say that I am happy to have them there because I think one of the things that happens, and no offense to my friends from the West and the South, is that agriculture policy is most often perceived as something only affecting those regions of the country.

We have got a large number of small farmers. We are an area that imports milk products, but we do produce a lot, and national policy has a tremendous effect on us. I would hope that as we look towards new solutions to the future, to deal with the dairy problem, the overproduction and the ability to keep farmers alive, we would also take a look at the last 40 years and understand that government has done some good things. It has kept the price of this product low and it has kept the farmers from starving to death too often; I certainly hope that we do not take a radical departure unless we take a look at some new options.

I think we ought to look at the Canadian model, and I hope that my friends from Connecticut will be able to answer all your questions. I have to run off to a whip's meeting. Thank you for the time you have given me.

Mr. VOLKMER. Also, I would like to introduce the gentlewoman, Congresswoman Nancy Johnson, also to join in the introduction of our next two witnesses.

Ms. JOHNSON. Thank you, Mr. Chairman and members of the subcommittee, and Sam for his ability to get here this morning to join me in welcoming this panel. I am extremely pleased to have the honor of introducing two of the finest members of Connecticut's agricultural community; Ken Andersen our commissioner of agriculture, and Norma O'Leary, our Connecticut Farm Bureau president, a lifelong dairy farmer, to testify before your subcommittee on the dairy program and its importance to New England.

I have known Ken for 6 years. When I was in the State senate, he was the legislative liaison for the Farm Bureau, and we worked closely on many issues. He is well-informed, he is creative, and through his leadership since taking the post as commissioner—you who have been involved in production stimuli will appreciate the fact—he has created a Connecticut home-grown marketing campaign; strengthened our State's commitment to farmland preservation, and is currently grappling with the very difficult problem of the liabilities facing farmers as a result of the widespread use of fertilizer by tobacco farmers, and the recent broad wellwater pollution problems faced by our communities in Connecticut.

Ken has done a remarkable job in bringing a voice for Connecticut's farmers in rural communities to State government, and it is fitting that he is here today to testify on behalf of our State and the National Association of State Departments of Agriculture, and I welcome him.

Norma O'Leary is head of our State Farm Bureau, and assumed that position in 1982. She is also president of the Connecticut Soil and Water Conservation District. She has been a key community, State, and regional leader in agriculture, a regular participant in seminars and workshops in agriculture and small business issues in both Washington and New England, and has recently attended regional agricultural hearings in Boston.

In addition, never one to limit herself to her own back 40, Norma was 1 of 24 women, agricultural leaders, chosen by Secretary Block to participate in the U.S. trade delegation who recently returned from Europe. I am confident that Norma O'Leary's lifetime of experience as a dairy farmer and her extensive involvement in agriculture issues will offer valuable, knowledgeable, and straightforward perspective on the dairy problem for this subcommittee's consideration.

It is truly a pleasure to introduce two people with whom I have worked closely over so many years on such a variety of issues, and I commend their testimony to your consideration.

Mr. VOLKMER. Thank you very much, Congresswoman Johnson.

Your statements will be made a part of the record, and whoever wishes to proceed first may do so.

STATEMENT OF NORMA R. O'LEARY, PRESIDENT, CONNECTICUT FARM BUREAU ASSOCIATION

Mrs. O'LEARY. I will be summarizing my statement.

Mr. Chairman and members of the subcommittee, my name is Norma O'Leary as you have just heard, and I live in the northeast corner of Connecticut.

I would like to thank you for this opportunity to speak to you and in addition I would like to thank Congresswoman Nancy Johnson for arranging this opportunity for me.

Mr. Chairman, I am a dairy farmer. My husband and I own and operate a dairy farm which has 220 tillable acres with 245 head, which produces 237,000 gallons of milk.

I would like to tell you a little bit about Connecticut so you can put this information into perspective. Connecticut has 3.1 million people with 3 million acres of which 500,000 acres is still farmland. O'Leary Farm is one of the 563 dairy farms left in Connecticut.

However, Connecticut is the second largest producer of milk in New England, producing over 632 million pounds of milk annually.

Mr. Chairman, I believe that New England farms such as O'Leary Farm are a very important part of American agriculture. We are fortunate to live in close proximity to large population centers which offer consumer markets for our products and stability to our land prices.

New England weather and climatic conditions are well-suited to the dairy industry, but in Connecticut, we do not have the opportunity of switching back and forth from grain production to dairy production, as some of our counterparts do in the Midwest.

On our farm, as with any business, we are making decisions daily that affect its long-term operation. One major item that goes unnoticed into our decisions is the Federal milk marketing order and dairy price support structures. These structures have allowed us to plan for the future without the fear that there may not be a market for our milk from one day to the next, or that the price of the milk we produce may fluctuate wildly as milk markets change.

I believe it is imperative for the long-term survival of our family farm that the Federal milk marketing order and dairy price support system be maintained to assure consumers of a continuous supply of quality milk. To do away with this program that has served us so well for more than 35 years at a minimal cost to the taxpayer, would be to throw the baby out with the bathwater.

I also believe that we must make necessary adjustments to the current program to keep down its cost to taxpayers such as myself.

Mr. Chairman, New England agriculuture has proven that it can compete with alternative uses of land and other businesses. In regards to the diversion, I believe that our signup was 19 percent. In Connecticut, the diversion has created confusion and policy changes. At the end of this month, the diversion ends, assessment ends, support price drops; another drop in July, new program in September; dairy farmers do not appreciate this transition or confusion. We need to plan for the future.

Again, I would like to thank you for this opportunity to speak before the subcommittee, and I will be glad to answer any questions you may have.

[The prepared statement of Mrs. O'Leary appears at the conclusion of the hearing.]

Mr. **Volkmer**. Thank you very much, Mrs. O'Leary.

Mr. Andersen.

STATEMENT OF KENNETH B. ANDERSEN, COMMISSIONER OF AGRICULTURE, STATE OF CONNECTICUT

Mr. **Andersen**. Mr. Chairman, members of the subcommittee, my name is Ken Andersen, I am the commissioner of agriculture in the State of Connecticut, and for the sake of time I will also summarize my remarks.

As President O'Leary has so ably put it, really dairying is the underpinning of our States total agriculture. It is really understatement to say that when our dairy industry gets the sniffles, all our other commodity groups; poultry, nursery, tobacco, orchard, vegetable crops come down with the flu.

That is why I am here today. I had the privilege and honor of recently serving on the Dairy Committee of the National Association of State Departments of Agriculture, our national commissioners' group. They put forth a plan, one that I am sure you are very familiar with, and we all know in our sleep right now; and that is, it is the market-oriented plan. It calls for the basic support-price mover should be dairy-specific; the price support program should be market-oriented and of course should not become a principle market for dairy products. I think you have heard that many times today. Certainly the price support program should recognize changes in dairy production.

As for the diversion, the official policy of NASDA is that price should be the main factor to influence milk production and the supply of dairy products made available. Governmental programs establishing first, national volume controls using quotas or bases; second, diversion programs; or third, assessments against milk production for program costs should be implemented only when absolutely necessary.

Serving on that NASDA Dairy Committee, I can tell you that was compromise language. Several of the members on the committee of course were Southern commissioners, and from that deficit area where supplies were very tight, a diversion program had created great problems. The initial language from that committee, incidentally, called for an outright prohibition of a diversion program. Several of us secretaries and commissioners from other parts of the country asked them, could we soften that. We wanted inclusion of a diversion, and we wound up with compromise language saying "a diversion only when absolutely necessary."

I am not sure how helpful that will be to you, but that is how we did arrive there.

It goes on to say that the Secretary of Agriculture should be allowed some discretion, of course, in reestablishing that support price based on a projected level of Government purchases, and that dairy import regulations should be consistent, continued consistent with section 22 of the Agricultural Adjustment Act, to mitigate the impact on the price support program.

Then it finally calls for a continuation of the National Dairy Promotional Program with provisions for a producer referendum. I personally feel that this probably would be the best type of program we could wind up with. I think it affords those two very necessary ingredients of stability, long-term stability, and flexibility. A refined dairy index which was dairy specific would gain long-term stability and production volume and in dairy prices paid to farmers.

I think we can avoid wide, erratic fluctuations on support prices and dairy output and thus provide producers with a reliable business climate in which they can invest and plan their operations. I think we hear that more than anything.

Granting the Secretary discretionary authority to adjust that support price will offer very prompt and gentle responses to actual market forces. We are hopeful that such a system could then permit very subtle and orderly refinements to the support price which could then vie very closely to those market clearing prices, and thus establish and provide that safety net; the dairy income.

I would say that ratcheting down the support price to yet lower levels beyond those cuts which are aleady scheduled on April 1 and July 1 could have a very devastating effect on the Northeast dairying and the future of Connecticut agriculture.

I would therefore suggest an acting interim policy of freezing the support price at a floor no lower than $11.60 until the CCC purchases of dairy stocks falls below that 5 million pounds of milk equivalent.

I see that I am running over, so in conclusion I would like to say, as you know, dairying is the underpinning of our State's agriculture. It provides all those services that we need; feed, mills, tractor, franchise, credit agencies for our Connecticut farmers to stay in business. We have invested on the State level $20 million for Purchase of Development Rights Program.

Can you imagine how I feel as a commissioner, out there we are literally racing the clock to beat the developers' plow, and in several cases—I have been commissioner now for Connecticut for 1 year—we get there and we are a day late and a dollar short. The prices of the land in and around that beautiful, fertile, well-drained, stone-free soils around the Connecticut River Valley become exponentially too high to even consider for a PDR Program, up $7,000, $10,000 an acre. We cannot even begin to consider purchasing the development rights. It is very disheartening.

So we are trying to run with these programs; we are strongly committed at the State level to try to do everything reasonable and possible to keep our farmers in business. Profitability has to go hand in hand with our preservation efforts, and I very much appreciate your consideration of my remarks here today.

[The prepared statement of Mr. Andersen appears at the conclusion of the hearing.]

Mr. **Volkmer**. Thank you very much, Mr. Andersen.

I recognize the gentleman from Vermont for questions.

Mr. **Jeffords**. It is very good to see you both. First of all, before I forget it, I want to invite you to Vermont on April 13; we are going to be sending letters out to you. We will be holding the New England regional hearing at that time on the dairy issue. You have already made your statements today, so you do not necessarily have to come back and repeat yourselves, but if you might want to send a panel up or something to represent Connecticut at that time.

I also want to commend both of the people that introduced you, especially Nancy Johnson, who I worked with very closely on the various dairy areas, and I have been up to Connecticut to talk to dairy farmers at her request on a couple of occasions.

You really answered one question I wanted to have, and I will ask Mrs. O'Leary whether she would comment. As I have told other panels, most likely in my mind what is going to happen is, we are probably going to end up with an extension of the existing farm bill, which would mean an $11.60 price probably through until the end of 1986 or some time in 1986. I may be overly pessimistic about the future of trying to get a 1985 farm bill, but what would the impact in your mind be, Mrs. O'Leary, on the dairy industry in Connecticut, if that would occur. I think the commissioner has already given his opinion on that.

Mrs. O'LEARY. As far as my farm personally, I would lose close to $10,000. It would be just like someone taking it out of my income.

As far as the industry itself, I think it will separate the men from the boys.

Mr. JEFFORDS. The women from the girls?

Mrs. O'LEARY. I think those who have their act together who have not had to borrow a lot, who have been cautious in their spending, I think they will survive. I think some of our young farmers who are trying to hack it, some of those who have purchased too much land in order to survive or made some purchase they should not have—who have a credit problem—will go under. I am not saying we should keep them all there, but I do feel we should keep as many as we can.

Mr. JEFFORDS. The administration recommends going down to about $10. Let me ask you what would happen if we dropped the price to $10.

Mr. ANDERSEN. At first, probably there would be a scramble for a good many of our farmers to put on cows. Then ultimately, and eventually, no question there would be kind of a radical shakeout of the industry. It is medicine that is too strong and too drastic, and has the potential to do real harm to our State's total agriculture. Absolutely harmful.

Mr. JEFFORDS. Thank you very much.

Mrs. O'LEARY. I think they would sell because they can get a lot more from the land for something else, and we would lose agriculture as an industry.

Mr. JEFFORDS. In other words, you feel if that were to occur, you would probably lose all your farms eventually?

Mrs. O'LEARY. Not all, but——

Mr. ANDERSEN. It would make it challenging, right.

Mr. JEFFORDS. Thank you very much, both of you, for your excellent testimony.

Mr. ANDERSEN. Thank you.

Mr. VOLKMER. I would like to ask a question.

Mrs. O'Leary.

Mrs. O'LEARY. Yes.

Mr. VOLKMER. Did you all participate in the diversion program?

Mrs. O'LEARY. No, I did not. We did not. Nineteen percent of the people in our State did, though.

Mr. VOLKMER. I just wondered, because if you did I was going to ask you a couple other questions.

The second thing I would like to know is, as most of your product, I guess, in Connecticut also: Most of it from the dairy producers, what we call fluid milk, class I milk, and you said you had about 220 tillable acres. You raise your own feed, and——

Mrs. O'LEARY. Our own roughage. We have to buy all of our concentrates.

Mr. VOLKMER. You buy all the concentrates.

So you could not very well reduce too much more your cost of production then, can you?

Mrs. O'LEARY. Not really. We would have to do a little bite more repairing, and just bite the bullet.

Mr. VOLKMER. What about your replacement heifers? Do you purchase those or raise them?

Mrs. O'Leary. No, we do not; we raise all of our own.

Mr. Volkmer. Is that most of what happens in Connecticut?

Mrs. O'Leary. Yes, I would say.

Mr. Volkmer. Do you plan to increase production in this next year due to the drop in price?

Mrs. O'Leary. No, we do not. We do not plan to increase.

Mr. Volkmer. Do you have the ability, in other words, do you have the milk machines, parlor, et cetera——

Mrs. O'Leary. Yes, we do. We have a very modern setup.

Mr. Volkmer. I mean, do you have the ability to increase in that?

Mrs. O'Leary. Yes, we do. We just are able to purchase some other land and we rent from five other homeowners, landowners. We would be able to increase, definitely. If we had a son we probably would. We have three daughters.

Mr. Volkmer. But you do not plan——

Mrs. O'Leary. No, we do not.

We used to be proud that we would produce a food product. But now we are not because of the surplus. In fact, we are almost embarrassed to say that we produce milk.

Mr. Volkmer. Why?

Mrs. O'Leary. Because we are contributing to a surplus which is creating a problem.

Mr. Volkmer. Yet you are providing a wholesome food for the people in Connecticut.

Mrs. O'Leary. Yes, we realize that. But it is a Government expense.

Mr. Volkmer. I quite agree with both of you that if we went down to where the administration wants to take us, that there are probably a lot less dairy farmers all over the United States; not just in Connecticut, but all over the United States.

I yield to the gentleman from Vermont.

Mr. Jeffords. I just wanted to extend an invitation to you to come up. If you want to really see how the farms are up there, why I would be happy to have you up on the 13th. You could not only listen to testimony, you could view the farms.

Mr. Volkmer. I would love to, but I am going to be busy in my own district out in Missouri on April 13.

Mr. Jeffords. That is a shame.

Mrs. O'Leary. We will bring you another time.

Mr. Volkmer. Yes; thank you very much.

Mr. Andersen. Thank you.

Mrs. O'Leary. Thank you.

Mr. Volkmer. We appreciate both of you being here; your testimony has been very helpful.

At this time we would like for our final panel, last panel to come up. Mr. Jim Phillips, executive committee of the National Pork Producers, and Mr. Dale Humphrey, chairman of the National Cattlemen's Association, agricultural policy committee, and he is accompanied by Chandler Keys and John Ross.

We will begin with Mr. Phillips. Your statement will be made a part of the record at this point in the record, and you may either summarize or deliver your statement in full, however you so desire.

STATEMENT OF JAMES PHILLIPS, EXECUTIVE COMMITTEE, NATIONAL PORK PRODUCERS COUNCIL

Mr. PHILLIPS. Thank you, Mr. Chairman and members of the subcommittee. We appreciate the opportunity to share with you our position on the 1985 farm bill and dairy legislation.

I am Jim Phillips, I serve on the executive committee, and am a member of the board of directors of the National Pork Producers Council from Missouri. I am a hog farmer in Missouri, marketing approximately 8,000 animals a year. Also a crop farmer raising corn, wheat, soybeans and milo, plus hay.

The National Pork Producers Council is the largest commodity organization in the Nation with an identified membership. We represent 315,000 farm families. Our organization wants to focus your attention upon the economic hardships now being suffered by the family farm system and emphasize to you the importance of maintaining that system.

NPPC's farm policy recommendations including dairy legislation are outlined and detailed in the written portion of our testimony which, with your permission, we will submit for the official subcommittee record. Our recommendations focus on the needs of the 315,000 producers who continue to maintain hog operations in the face of high interest rates, unfair subsidized foreign competition, and sometimes conflicting governmental advice to consumers on diet and nutrition.

We have always believed, and continue to believe, that despite 50 years of farm legislation that has injected the Federal Government into the farm marketplace as its chief regulator, farmers are likely to be more efficient, more productive, more competitive, and ultimately more profitable when they are left alone without artificial price floors or artificial production controls.

NPPC is not an advocate for increased Government intervention or regulation in agriculture. We are concerned with minimizing the adverse impact of Government policies on our industry and all of agriculture, and of encouraging the unfettered interplay of supply and demand as the factors that should ultimately determine profit and loss.

To put it simply: The Government that governs best on behalf of pork producers and their profitability is the Government that governs the least and above all spends less.

Our organization supports the most free farm marketplace possible, but we recognize that it is unrealistic to expect existing commodity support programs, particularly in the dairy sector, to simply vanish overnight. While we are skeptical about the beneficial impact of prevailing policies on many of our fellow producers, we support a reasonable, gradual transition that will move the present program steadily in the direction of the competitive marketplace.

In our detailed testimony, we discussed the merits of a freer market system in the moderation of Government farm supports. We are aware that timing becomes the most critical factor for our fellow producers, many of whom have become financially dependent on some of these Federal programs.

Mr. Chairman, NPPC hopes that your subcommittee will consider proper timing and implementation provisions in any changes made in the present system—present price support system. Agriculture needs sufficient time to adjust and adapt to the world economy in which it finds itself.

There is another important element that must be addressed simultaneously: Our Government must face up to the reality of the world marketplace as well, and begin insisting that its trading partners recognize that free trade is not just a one-way proposition. It will take some time and patience, but with the careful deliberation and encouragement of this subcommittee, the full House Committee on Agriculture and your counterparts in the Senate, we are confident that a reasonable solution to the present dilema will be found that will help reestablish American agriculture as a real competitor in world markets.

Mr. Chairman, thank you for the opportunity to be heard on behalf of the Nation's pork producers and to permit us to submit for the subcommittee records our thoughts on the 1985 farm bill and dairy legislation. If there are any questions, I will be glad to attempt to answer them, and I personally want to thank you, sir, for your help in the problem we have had with Canadian imports and the other favorable ruling we had this afternoon. Thank you very much.

[The prepared statement of Mr. Phillips appears at the conclusion of the hearing.]

Mr. VOLKMER. We just hope that they do not delay the rest of it too long; in other words, that June does not go into August and September and I have not fully analyzed it yet; I have been busy all day. I heard about it. Hopefully we can get something done.

Mr. PHILLIPS. I certainly hope so.

Mr. VOLKMER. It is good to hear from a fellow Missourian. We will have some questions in a minute.

At this time I recognize Mr. Humphrey.

Your statement will be made a part of the record. You may either read the statement in full or summarize, however you so desire.

STATEMENT OF DALE HUMPHREY, CHAIRMAN, AGRICULTURAL POLICY COMMITTEE, NATIONAL CATTLEMEN'S ASSOCIATION, ACCOMPANIED BY JOHN W. ROSS, DIRECTOR, TAX FINANCE AND FARM POLICY, AND CHANDLER KEYS, POLICY ANALYST

Mr. HUMPHREY. Thank you, Mr. Chairman.

I want to thank you and the members of the Livestock, Dairy, and Poultry Subcommittee for this opportunity to comment, on behalf of the membership of the National Cattlemen's Association, on the dairy program. My name is Dale Humphrey, and I serve as the chairman of the National Cattleman's Association's Agricultural Policy Committee. I am a cattleman and a grain farmer from Indiana.

Mr. Chairman, the members of the National Cattleman's Association want to work with the dairy industry and other meat and poultry industry groups as the dairy program was developed in order to ensure that it will adversely affect us.

The members of this subcommittee know that the National Cattleman's Association and other red meat and poultry organizations opposed the dairy diversion program when it was enacted in 1983. Our membership viewed it as a shortsighted policy that directly and adversely affected the cattle industry. We do not want to see a repeat of that program.

We have talked with some but not all of the dairy industry groups. We want to continue these discussions. We are working with the other meat and poultry groups to make sure that the dairy industry understands and take into account our concerns in developing any dairy program.

After all, dairy beef accounts for about 20 percent of all the beef and 40 percent of the cow beef produced in the United States. Changes in the dairy program directly affect our cow beef market, where we already must compete with some substantial amount of imported beef. Indirectly fed beef prices also are affected by the dairy program.

It is our desire that Congress recognize and minimize any adverse impact of the dairy program on the beef cattle industry.

As an example of the effect that the dairy program can have on the beef industry, let me review what happened when the present dairy diversion program was under discussion in the summer and fall of 1983. At that time, many industry analysts, NCA analysts included, and even Members of Congress suggested that as many as 1 million dairy cows might come to market under the program. Our beef markets reacted very strongly to this suggestion, and beef cow prices fell from $41.14 per hundredweight in July 1983 to $33.26 in January 1984. The September 1983 price, $37.73 per hundredweight, was the lowest on the cow market since 1978.

The market did recover after it was clear that participation was low and beef cow prices moved up to $42.60 per hundredweight in March 1984. However, by that time, the damage had been done. The only meaningful prices are those that are received for the commodity, and average prices over the year mean very little to the cattle producer because the cattle producer sells at a specific time and not as an average over the year.

Mr. Chairman, we continue to oppose diversion-type programs for this same reason. The diversion payments encourage and in fact subsidize the slaughter of dairy cows in direct competition with beef producers in this country.

Dairy farmers then respond to Government programs instead of economic signals from the milk and beef markets, and these same programs distort the economic signals beef producers must respond to in the beef markets.

Further, we are not convinced that the diversion program has accomplished anything more than a delay in the day of reckoning for the dairy industry. While commercial milk marketings have fallen by 2.4 percent, milk production has only fallen 1.6 percent because on-farm use has increased.

Further, while the dairy cow herd has declined 2 percent, dairy replacement heifers have increased by over 5 percent. In fact, the increase in dairy replacement heifers nearly offsets reduction in the cow herd, leaving less than one-half percent net change in the size of the potential dairy herd.

From a beef cattle producer's viewpoint, the dairy diversion program was a no-win proposition. If participation had been high, we would have seen a flood of dairy cows come to the market in a very short period of time with disastrous consequences for all beef prices, but particularly for cow beef prices; 20 percent of the cow man's gross receipts are from the sale of culled cows.

With low participation that we did have, however, we are now facing the problem again. In fact, the problem may be compounded by the dairy heifers retained in anticipation of the end of the program. Dairy farmers now have more than 46 replacement heifers for every 100 cows in the milking herd. This rate of retention clearly indicates a large dairy herd, not a smaller one.

To summarize, we would like to work with other affected groups, with the dairy industry, to develop a dairy program that we can all live with. We should be able to develop a program to be incorporated into the 1985 farm bill that will have broad support within agriculture.

Mr. Chairman, again we appreciate this opportunity to testify, and encourage the subcommittee to let the current dairy program run its course while we work to arrive at a plan that is mutually agreeable to all agricultural groups.

Thank you. I would be happy to answer any questions.

[The prepared statement of Mr. Humphrey appears at the conclusion of the hearing.]

Mr. **Volkmer**. I will recognize the gentleman from Vermont.

Mr. **Jeffords**. Thank you. I just want to first of all, as far as the pork people go, I am pleased to see that the administration may have finally done something to help you on the Canadian imports that have been coming through, and I am pleased to see that. It is good to see you smiling.

As far as my good friends from the cattlemen's industry, I would like to put another view on the record at this point. As I remember, the people that were opposing this bill were indicating they anticipated 2 to 3 million additional culls, and I think the figures would show that there was probably 10 to 15 percent of that figure, is all that there was. Somewhere under 300,000 additional culls at best.

In addition to that, I would like to point out that the program was a success; it met all the criteria that we said it would, even though the number of farms was at a lower percentage than anticipated. Actually, the milk that was in the program was right about what we needed to do the job; about 20 percent, and due to the fact that it met all our goals, I would say that it was a success; certainly not a failure.

I would only ask you this question, in a somewhat facetious way. If we have that many cows out there, they are going to go some way, and if they are not going to go through the cull process, are you proposing that they jump over the Moon, or how do we get rid of them?

Mr. **Humphrey**. I am sorry; I did not understand your question.

Mr. **Jeffords**. Good, I would like to repeat it. I am saying, how do you get rid of the cows unless you cull them? You have 1 million extra cows out there, something like that, how are we going to get rid of them? We are going to cull them one way or another, but we certainly are not going to have them jump over the Moon, as they say.

Mr. **Humphrey**. This is what our interest is, that we come together and we cooperate and we have some understanding as to how the proper way and proper timing for culling is. I am not sure what the dairy industry's position is, but in beef we cull considerably stronger in the fall.

So if we can work a program that will work together, that will be beneficial to both our groups.

Mr. **Jeffords**. Would you like to comment?

Mr. **Ross**. I just might add to that that one of the comments we made in the original dairy diversion program, and one of the comments we would continue to make is that is, as we feel a lot more confident in our ability to assess when the market is going to dictate that those cows come to market than we do that it can be legislated.

The cattle industry does operate under one of the least fettered markets in the country, and we tend to feel that we are more able to accept those cattle when market conditions warrant than if a program dictates when they come to market.

Mr. **Phillips**. I also would like to address that. We have heard several remarks today in testimony about starting another program October 1, of this year.

The original thing that brought the pork producers out of the woodwork I guess to participate in Government affairs here was that threat to put 1 million cows on the market in October. October is the time that the cattle industry always culls, so it is their low time for their prices.

That is also the time that all our spring pigs are marketed, in October, so that is our low time. Then when you have the threat of another million cows on that market, a depressed market, that really scares you as a producer and farmer.

Mr. **Volkmer**. I just have a couple comments. One, Mr. Phillips, in continuation of my activites in regard to the Canadian pork situation, Congressman Bedell and I and Evans of Illinois will be leaving tomorrow to go to Manitoba to meet with some of the people up there regarding the situation to see if they, so that they understand better our concerns. Sometimes I think it is better to meet with some of those pork producers up there.

So I will be talking to a good Missourian today, and Friday I will be talking to some Canadians to try and get them to understand, too, that they have to hold back if we are going to have any type of price here at all.

Like I told one of their people already, you know, if we have a better price they are going to end up with a better price, too, when you get right down to it, because the markets are not that far apart.

Mr. **Phillips**. Yes.

Mr. **Volkmer**. So we are going to try and impress them that way, and I hope we can see it.

Also, Mr. Humphrey, I never have really understood. I have never heard any word from the cattlemen in regard to this situation, and I have all three types of livestock, I have cattle, pork, and lamb in my district. Most of the pork is in the feeder pig operation, but I have some breeding stock also, and I have some fat hogs that are finished, and I have basically the same thing in cattle in my district.

Yet, I have always had the feeling that when you have this influx of red meat, whether it is pork or what, it is going to depress not only pork prices, it is going to depress cattle prices.

Do you agree with that?

Mr. Humphrey. Yes; I certainly do.

Mr. Volkmer. That is competition.

Mr. Humphrey. That is right.

Mr. Volkmer. And if the price of pork goes down $40 or $35 a hundred, the price of beef is not going to go up to $70, is it?

Mr. Humphrey. I am sorry?

Mr. Volkmer. Did you ever see a price of beef going to $70 with a price of pork at $35 or $40?

Mr. Humphrey. No; although they do not always move in the same direction.

Mr. Volkmer. I know that; they do not always move in the same direction, but the chances of it would be very slim, would it not?

Mr. Humphrey. I am not sure that I would say slim, but there are times when the cycle intersects and they will be going the same way, and sometimes they are not.

Mr. Volkmer. I also heard a rumor, and I have not been able to confirm it or not, that—maybe you can tell me better, that we will probably see increased beef imports this year.

Mr. Humphrey. Well, of course, with our countercyclical import law——

Mr. Volkmer. I know.

Mr. Humphrey. We are in a little bit lower numbers, and so it would figure. But now whether the other countries are in shape to take care of that or not, I do not know. I know Australia is just coming out of a drought situation, and so what countries might be sending in beef, I have no knowledge, but it will probably not be a very appreciable amount.

Mr. Volkmer. And your greatest concern—personally, I may have a disagreement with the other members on this committee, but I do not see a new diversion to maybe lay some of your fears aside about any new diversion program coming into existence right away this year. I just do not see that happening. I am saying it is never going to happen, or there may not be a standby one.

I do appreciate your comments, specifically about making sure that if you do anything with it, make sure it does not impact on the—in other words, doing it at the proper time; especially do not do it in the fall and do not do it when you are going to have the influx of other red meat on the market.

Mr. Humphrey. We certainly agree with that, and we didn't want to write a dairy bill; but we did want to be involved, and it would affect the beef industry.

Mr. Volkmer. We appreciate it. On the other hand, I think we should should realize, too, that if we would go along completely with just letting the market go and not have any type of program in the not too distant future, in a year or two, I think you would see a lot of cows out there on the market because we would have a lot of dairy farmers going out of business. They just would not be around; they could not stay on.

Mr. HUMPHREY. There are aberrations in the free market system, but we just feel like there may be more and stronger in a regulated system.

Mr. VOLKMER. Thank you very much.

Mr. HUMPHREY. Thank you.

Mr. COELHO. Mr. Phillips, is this your first time before this subcommittee?

Mr. PHILLIPS. Yes, sir.

Mr. COELHO. Well, welcome. I hope they treated you right. I promised you we would treat you fairly, and I hope they did.

Mr. Humphrey, as I remember the cattlemen from California came into town and were all charged up based on what was going to happen as a result of this bill going into effect. What was happening is that all their talk was causing problems. As soon as the bill got into effect, things stabilized and prices stabilized, and at least our charts show that; USDA charts show that.

I would assume yours do, too; I do not know what your charts show.

They do not, huh?

OK, just on utilities, or what about everything?

Mr. ROSS. Pardon me?

Mr. HUMPHREY. Sir, we are talking about a cull cow program, and so this is what is relevant to this. I think that in actuality there was not much impact on the fed-cattle market, but that does not mean that there could not have been, and of course, as you——

Mr. COELHO. As I said this morning to somebody, if we had to worry about what could have been or what if, we would never do anything in this country. It would all come to a standing halt because everybody would be afraid to do something. We are only concerned about what did happen.

Mr. HUMPHREY. Of course, the market has a lot of psychological impact and the fact that it was even being discussed did have that impact. Before it went into effect, why we had a drop of about $7——

Mr. COELHO. Who created the impact? Who created the psychological impact? The point I tried to make with the cattlemen continuously was that you created it, because you kept on saying "the sky is falling, the sky is falling" and the market believed you.

The reaction was very dramatic; at least that is what the charts show.

Mr. HUMPHREY. Very possible that the sky might have fallen, had the dairy industry followed through in the way that we were led to believe, from not only our own analysis but analysis from the dairy industry and from Congress itself.

Mr. COELHO. I do not understand. Educate me as to what you just said.

Mr. HUMPHREY. I will try to improve on that, and then I will let one of my colleagues explain it if I do not.

My comment is that I think any program that is put out will have to have a certain amount of commitment, and the commitment was unanimous from all aspects of the industry that this impact that the dairy diversion bill would have if 1 million cows came to market would be really rather disastrous.

Mr. Ross. Part of what Mr. Humphrey is saying is that we weren't the only ones saying that 1 million cows would come to market.

Mr. Coelho. Were you with the Cattlemen at the time? Were you the one advising the Cattlemen on this?

Mr. Ross. I didn't accompany the California Cattlemen.

Mr. Coelho. Were you with the National Cattlemen's Association? You were advising them this is what would happen?

Mr. Ross. Yes.

Mr. Coelho. OK.

Mr. Ross. I was one of those economic analysts that was advising the Cattlemen that up to 1 million cows could come to market under this, but we weren't the only ones saying that. The Livestock Business Advisory Service raised the point early on in the discussion that as many as 1 million dairy cows could come to market in a very short period of time.

Some of the Members of Congress stated that in order to resolve this problem we may need to see 1 million dairy cows slaughtered.

Mr. Coelho. Out of 535 Members of Congress, how many said that?

Mr. Ross. One or two that—I don't know how many said that for certain but I do know that one or two said that.

Mr. Coelho. Out of 535, but go ahead.

Mr. Ross. Several of the market advisory services indicated that up to 1 million dairy cows could come to market in a very short period of time under the dairy diversion program as it was outlined in 1983.

Mr. Coelho. My concern is that as the California Cattlemen came back, they had been scared into what was going to take place. Once it was explained to them, they understood that maybe the alternative that we provided wasn't as bad as some people said it was and that the alternative to ours could well be worse, as Mr. Volkmer pointed out, and so forth.

So for the record, I have a great relationship with the California Cattlemen and a decent one with the National Cattlemen and I like to help out people who have problems. I don't like friends of mine causing problems for other friends when, to some extent, the facts aren't there. I didn't particularly appreciate the way it was handled the last time around. Hopefully we can have a deeper and better relationship in regard to this issue as we develop it this time.

I appreciate very much the panel testifying. Thank you very much.

We would like to have the hearing record open for 10 days for anybody who wants to add to their testimony or anything else.

The hearing is adjourned.

[Whereupon, at 3:25 p.m. the subcommittee adjourned, to reconvene at the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement by Richard Goldberg
Deputy Under Secretary for Agriculture
International Affairs and Commodity Programs
U.S. Department of Agriculture
before the
House Committee on Agriculture
Subcommittee on Livestock, Dairy, and Poultry
March 27, 1985

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today and discuss dairy price support policy, including the dairy provisions of the Administration's proposal--The Agricultural Adjustment Act of 1985. As you all know, a substantial amount of time and effort has been spent in recent years debating and legislating dairy price support policy. As we begin consideration of the 1985 Farm Bill, the development of appropriate dairy policy will be necessary if we are to achieve a long-term and responsive agricultural policy.

Past Legislation

Between March 1981 and November 1983 there were seven separate pieces of legislation enacted dealing with the milk price support program. The most recent was the Dairy and Tobacco Adjustment Act of 1983 (the 1983 Act). This legislation was in response to the inability of prior legislation to reverse the continual surplus milk conditions plaguing the dairy industry, i.e., milk production had increased to record levels while commercial consumption lagged far behind. This resulted in excessive CCC price support purchases of surplus dairy products and taxpayer costs rose to a level in excess of $2.5 billion annually. Commodity Credit Corporation (CCC) price support purchases of dairy products reached a record of about 12 percent of total U.S. milk production in FY 1983--over 16.6 billion pounds milk equivalent.

The 1983 Act represented a compromise among all concerned parties--the Congress, the industry, and the Administration--as the most feasible means of addressing the surplus problem in the short term. The legislation basically provided for an immediate 50-cent per hundredweight (cwt) drop in the support price to $12.60 per cwt, a 50-cent per hundredweight deduction from all milk sold, and a 15-month diversion program. CCC would pay $10.00 per cwt for a reduction in marketings from 5 to 30 percent of a base period of marketings. In addition, at the end of the diversion program, if CCC purchases for the following 12 months were projected to exceed 6 billion pounds milk equivalent, the support price could be lowered 50 cents per cwt on April 1, 1985; and if CCC purchases on July 1, 1985, were estimated to exceed 5 billion pounds for the following 12 months, the support price could be lowered another 50 cents per cwt. The 1983 Act also provided for a 15-cent deduction per hundredweight from all milk marketed. This check-off was designated for promotion of milk and dairy products. Thus, the 1983 Act was designed to provide dairy farmers a 15-month period in which to adjust milk production in line with commercial demand, and if the adjustment was not sufficient, the support price could be lowered in two 50-cent increments.

Effects of the Milk Diversion Program

The milk diversion program will end in a few days, and some general observations can be made. A more detailed analysis will be made following the termination of the diversion program. However, the following points provide some insights into the effectiveness of the milk diversion program:

-- A relatively small number of farmers signed up for the diversion program, about 20 percent of the commercial dairy operations.

-- Marketings of milk were only 2 percent lower in 1983-84 than in the record 1982-83 marketing year.

-- The small participation in the program made it possible for the 50-cent deduction from the price of all milk marketed to nearly equal the diversion payments over the 15-month life of the program. As of the end of February, about $717 million had been paid out under the milk diversion program, while about $757 million had been collected from the 50-cent deduction, under the 1983 Act.

- An additional $594 million was collected from the deductions on marketings from April 16, 1983 - November 30, 1983. Thus, while collections total $1.35 billion, the $594 million collected under authority of the earlier legislation should not be used when comparing payments and collections during the milk diversion program.

-- The cost of purchasing dairy products under the price support program was about $1 billion less in 1983-84 than in 1982-83. Nonetheless, net budget outlays of the dairy price support program were still in excess of $1.5 billion.

-- There was no fundamental structural change in milk production. In the last few weeks of the diversion program, CCC purchases of dairy products have rebounded to above year earlier levels and milk production is expected to increase sharply in the coming months.

-- Less than half of the reduction in the surplus has been due to reduced milk production--most of the reduction has occured because of increased commercial sales and increased "on farm" use. The following factors in addition to the diversion program have impacted on production: 1) the 50-cent cwt. reduction in the support price on December 1, 1983; 2) the current 50-cent deduction/cwt. deduction on milk sold to finance the dairy diversion program; 3) higher feed costs that occurred early in 1984; 4) certainty with regard to dairy policy through September 1985.

-- The diversion program has provided a brief respite from rapidly escalating milk production and CCC purchases. However, very few farmers have made any real adjustment. More importantly, no substantive adjustment has been made in the milk processing/manufacturing capacity, which is also in surplus.

Thus, while the diversion program and other provisions of the 1983 Act did reduce CCC purchase costs by about $1 billion, the surplus in FY 1984 still was 10.4 billion pounds milk equivalent. When the diversion program ends, farm use is expected to revert to normal levels and marketings will be increased by that amount. In addition, many producers are expected to expand their milk production sharply. Producers appear to be holding heifers for increased production as the number of milk replacement heifers per 100 cows on January 1 was 44, a record level.

As a result, we expect the trigger levels provided for in the 1983 Act will be exceeded allowing the Secretary the authority to lower the support price on April 1 and July 1. The April 1 support decision will be announced in the next few days.

Economic Environment for Future Dairy Policy

The recent history of the dairy industry's reaction to frequent milk price support legislation in terms of milk production and sales indicate that a new, more stable and responsive approach should be provided for in future dairy programs.

Efficiency in terms of milk production can be measured in two ways: 1) by achieving increased amounts of milk from a cow; or 2) producing milk at the least cost. United States' dairy producers seem to excel by either measure. Average annual production per cow increased from 11.9 thousand pounds in 1980 to 12.6 thousand pounds in 1983, an increase of 6 percent. During that time, the support price was unchanged from October 1980 through November 1983. As an additional example, consider the most recent production data available. Milk production in February 1985, on a daily average basis, was 0.8 percent or 85 million pounds above February 1984 levels--and this was attained from 99,000 fewer cows, with the same support price.

During this period 1980-1983, when the support price was unchanged and production was increasing repaidly, commerical disappearance increased less than 3 percent--about 1 percent per year. This combination led to the increasing surplus of dairy products. Commercial disappearance rose sharply during the first two quarters of 1984 just as the provisions of the 1983 Act were beginning to have an effect. However, the increase in commercial disappearance was not sustained and by the last quarter of 1984 it was less than one percent over the year earlier figure.

An economically viable dairy industry is going to require a long-term policy that will provide farmers a sounder basis to plan and make important investment and production decisions. That policy must accommodate continued productivity gains and at the same time guide structural adjustment in both the production and processing/manufacturing sectors. If price supports are to be the dominant factor in future dairy programs, they must be effective in that they reflect the economic conditions in the dairy industry and the marketplace and must be allowed to fluctuate in response to changes in those conditions.

Dairy Provisions - Agricultural Adjustment Act of 1985

The Agricultural Adjustment Act of 1985 provides that on October 1, 1985 the price support will be $11.60/cwt, except that on April 1, 1986, if the Secretary of Agriculture estimates that CCC purchases of dairy products for the following 12 months are projected to exceed 5 billion pounds milk equivalent, the Secretary shall reduce the support price by 50-cents/cwt. In addition, on January 1, 1987, if the Secretary estimates that CCC purchases of dairy products for the following 9 months are projected to exceed an annual rate of 5 billion pounds milk equivalent, the Secretary shall reduce the price support by 50 cents/cwt.

Beginning in marketing year 1987/88, the Agricultural Adjustment Act of 1985 proposes a system of direct payments to farmers that would avoid the costs and adverse effects of supporting milk prices by government purchases and the problems of storing, transporting, and disposing of surplus production. This direct payment program is phased in after a two-year period in order to allow the dairy industry time to adjust by first making the support price for the current purchase programs more market-oriented. Then, the target price would remain below the market price, except possibly during flush milk periods or very extreme supply/demand conditions. At that point, since little or no dairy products would be sold to the government, a purchase program would no longer be needed.

A direct payment (or deficiency payment) program would have many of the features of the target price approach used in major crop support programs since the early 1970's. Target prices would be calculated on an annual declining percentage of the three year moving average of the national average all milk price received by farmers. Payments would be made directly to individual producers to the extent that prevailing market prices fell below the designated target price levels. Farmers would get direct payments based on the current production, subject to a $10,000 payment limitation.

There are several advantages of using a direct payment program for dairy in comparison with the current purchase program:

- It would have a greater market orientation with market-clearing prices reacting to changing supply and demand.

* It would provide dairy producers with direct income support.

* Wholesale dairy product prices would adjust up and down to market-clearing levels.

* Consumer milk and dairy product prices and expenditures would be more competitive with other foods and substitutes.

* Commercial use of dairy products would increase.

* The resources of some cooperative and proprietary manufacturing firms would be channeled from producing butter, powder, and cheese for USDA purchase to developing and merchandising new products for the commercial market.

* There would be no government dairy product purchase, storage, and disposal costs.

* Government dairy program expenditures would go directly to dairy farmers.

* Dairy price policy would be linked more closely to other commodity programs and overall U.S. agricultural policy.

Finally, the Secretary of Agriculture is required to appoint a task force to review the Federal Milk Marketing Order Program. The task force shall consist of three producers, three processors (two from cooperatives and one independent processor), two agricultural economists from the Land Grant universities, and two representatives from consumer organizations.

In carrying out this review, the task force shall perform the following tasks:

1) Study the need for Federal milk marketing orders and clarify their purpose;

2) Assess the impacts of the existing Federal Milk Marketing Order Program on milk producers, processors, distributors, and consumers;

3) Identify, describe and evaluate feasible alternatives to the existing program, including analyzing the costs and benefits from commercial reconstitution of milk for fluid use;

4) Recommend regulatory and legislative changes as deemed appropriate and implement by no later than September 30, 1990.

As the price support program is changed to bring milk production more in line with demand, pressures for changing the milk marketing order will increase as producers will look to the orders to set higher prices for fluid use to make up for lower support prices.

In addition, pressures will mount for changing order provisions to better accommodate emerging technologies such as the potential effects of bovine growth hormones and reconstituted milk. Finally, to the extent that marketing orders have led to inefficiencies, including excess milk production in some areas, it is in the long-term interests of the dairy industry to identify potential problem areas and address them before they pose similar problems that the price support program currently presents to the dairy industry.

Summary

In conclusion, Mr. Chairman, it is imperative that a consensus is reached within the dairy industry regarding future dairy policy. That lack of a consensus has prevented the development of any effective long-term dairy policy.

Whatever policy is adapted, it is imperative that the dairy industry become united behind a single approach that is responsive to economic conditions and offers the flexibility to respond to changes in those conditions. If we fail to develop a lon-term responsive dairy policy in 1985 producers, processors, taxpayers, and consumers will all suffer.

Thank you, Mr. Chairman. I will be happy to respond to any questions that you and your members may have.

STATEMENT OF

IRVIN J. ELKIN, PRESIDENT
ASSOCIATED MILK PRODUCERS, INC.

I am Irvin J. Elkin, a dairy farmer from Amery, Wisconsin. I am also president of Associated Milk Producers, Inc., a dairy cooperative marketing association headquartered in San Antonio, Texas.

AMPI membership is comprised of more than 25,000 dairy farmers in 20 states through the central United States. In developing the organization that has become AMPI, we, as dairy farmers, have sought assurance of a market for our production, improved income and price stability and the opportunity for a reasonable return on the resources devoted to our farming operations.

Over the past several months more attention has been focused on American agriculture and the individual farmer's situation than at any time in the past decade. This is understandable as a problem of crisis proportions exists today. An increasing number of the nation's commercial farmers are carrying debt loads which, when balanced against declining asset values, are effectively reducing them to insolvency.

The Congress has sought to address this issue. It must be addressed. However, a short term fix of the debt crisis will not be enough. The farm debt situation is not the basic problem. It is, in fact, a symptom of the real problem. The real problem is reduced farm income, the result of low commodity prices.

The chart below illustrates this problem more clearly than words. Since the peak year of 1973, farm income, in 1972 dollars has steadily declined. As grim as the situation is today in the spring of 1985, USDA's current forecast of farm income for the coming year sees another sharp decline this year.

TOTAL NET FARM INCOME IN 1972 DOLLARS

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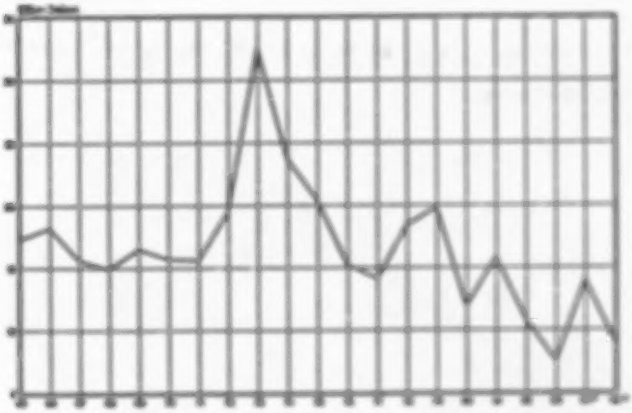

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The opportunity exists in the development of the 1985 Farm Bill to address this basic problem. Some have recommended a "hands off" policy. Such a policy would allow the erosion of asset value and the devaluation of agriculture to the point that production may once again be profitable at current or lower price levels. Such a policy places no price on the cost to be paid in human misery and suffering or the losses to main street America as financial institutions, agricultural suppliers and others dependent on the farm economy wither and die along with many farmers.

There has to be a better way.

While Associated Milk Producers, Inc. confines its specific policy recommendations to issues dealing with the dairy industry, we support efforts to improve income opportunities for other agricultural producers. We recognize that no sector of agriculture can long maintain a degree of economic well-being if the industry as a whole is depressed. It has been said, "Cheap feed makes cheap meat, milk and eggs." That is a fact.

Since 1981, there has been almost constant attention by this Committee and the Congress to dairy price support legislation. These efforts have focused on the needed restoration of a reasonable supply-demand balance in the industry and a reduction in government costs under the Dairy Price Support Program.

In 1982, the present administration successfully opposed dairy industry recommendations for a standby supply-management authority that would have allowed dairy farmers to tailor their production to market needs while placing an absolute cap on government costs. The result was the assessment program which was universally unpopular and notably ineffective in achieving the desired ends.

In 1983, under the leadership of a number of Members of this Committee, the so-called Dairy Compromise was fashioned. This two-part program provided farmers with important self-help elements. First, the producer funded milk diversion program provided a needed supply management tool. Second, the Dairy Promotion Program provided the needed authority for the dairy industry to unite behind a coordinated, full participation program of dairy product promotion funded and directed by dairy farmers.

The milk diversion program has been successful. Net expenditures under the Dairy Price Support Program were reduced by more than $1 billion from Fiscal 1983 to Fiscal 1984. Milk production, which had increased for 38 straight months, turned downward with implementation of the program. Dairy product purchases by the Commodity Credit Corporation have declined sharply. Each of these points are illustrated in the accompanying charts.

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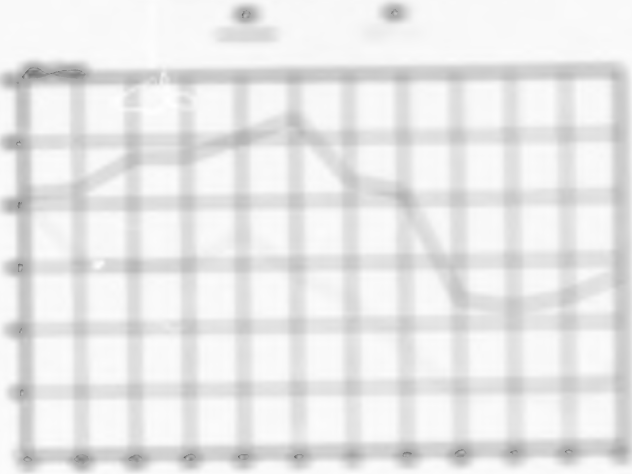

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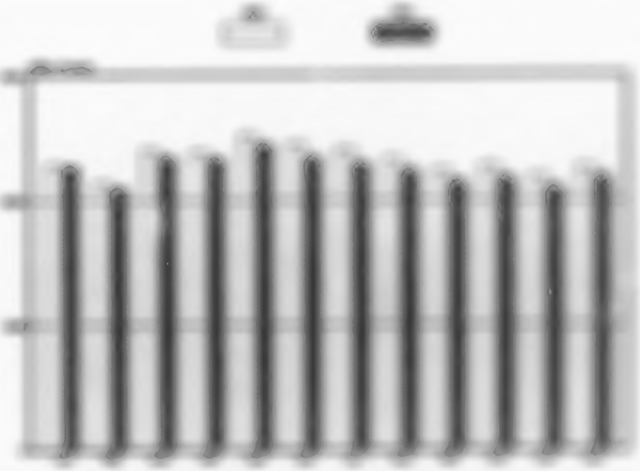

The milk diversion program could have been an even greater success. The program's 15 month duration was too short to fully meet the need, a fact recognized in the introduction of legislation to extend the diversion period. Uncertainty as to exact program provisions and frequent changes of administrative interpretation during the signup period caused confusion and disillusionment among many farmers. Concern over possible program penalties and reporting requirements caused some farmers to stay out of the program even though it would have been beneficial for them to participate. Others stayed out of the program since there was no penalty or disincentive to production expansion.

Even with these shortcomings, the program has effectively demonstrated the effectiveness of the concept. The opportunity is there to build on that experience as the 1985 Farm Bill is developed.

Some have recommended termination of the Dairy Price Support Program as it has operated under the Agriculture Act of 1949. Such proposals are supported by arguments to the effect that the industry has changed, therefore the program should be changed or that it is no longer needed. The point is made that government costs under the program have risen sharply in the past few years that termination would be a certain control of those costs. It is argued that consumers would benefit from such a move.

These statements ignore basic facts of the dairy industry and milk marketing. The basic conditions which required establishment of the price support program continue. In some respects, the need for this price stabilizing element is greater today. The market for milk is still characterized by many producers and relatively few buyers. Certainly, there are fewer dairy farmers today but there has also been significant consolidation among milk buyers. Even the largest producer in a market lacks the ability to influence the price of his product.

The counter-seasonal pattern of milk production and demand for milk and dairy products makes it essential to have a market stabilizing element available to prevent disaster level prices in the spring when milk supplies are surplus to current needs and rapidly rising prices in the fall and early winter. Given the seasonal pattern of both production and consumption, if there are to be adequate supplies of milk in November, there must be some excess available in May. The problem is to prevent that excess from depressing prices.

The nature of the product itself creates the need for the program. Milk is a bulky, highly perishable product that must be processed literally within hours of production. The producer has no storage option available to him. Once produced, the milk must be marketed. The individual producer has no ability to hold his production in the hope of later price improvement.

Looking at the consumer side of the issue, one must be impressed by the fact that consumer prices for dairy products have increased substantially less than prices for all consumer items or food generally.

PRICE INDEX COMPARISONS, JANUARY 1985

	(1967 = 100)
Consumer Price Index	316.1
All Food Consumed at Home	296.1
Dairy Products	258.1

The above demonstrates the effectiveness of dairy polcy in stabilizing retail prices over time and encouraging improved efficiency in the production and marketing of milk and dairy products.

If implemented, proposals to eliminate the price support program would eliminate the stabilizing effect that the program has had for the past 35 years. It would set the stage for wildly volatile price conditions at both the farm and consumer level.

This would come about as we progressively destroy the productive capacity of the nation's dairy industry. Those are strong words. Can they be supported? Some simple comparisons using current USDA estimates will do that.

The Department of Agriculture recently released its estimates of the cost of producing milk for 1984. Total economic costs of milk production for last year are projected at $13.75 per hundredweight. That includes $1.47 for unpaid family labor. If we were to eliminate the family labor factor, total production costs are $12.28 per hundredweight for 1984.

In outlining its farm policy recommendations, USDA presented estimates of farm prices. This included an estimate of the farm price for manufacturing grade milk for the years 1987 through 1990, years following termination of the price support program. Nationally, the price farmers receive for all milk averages about $1 per hundredweight above the manufacturing grade milk price. Adding that, we have the following USDA farm price estimates for milk:

	Manufacturing Grade Milk	All Milk
1987	$ 9.75 - 10.25	$10.75 - 11.25
1988	10.00 - 10.75	11.00 - 11.75
1989	10.50 - 11.75	11.50 - 12.75
1990	11.25 - 12.00	12.25 - 13.00

Under this scenario, USDA is saying that farmers will produce milk at less than the cost of production although they would see a slight return by 1989 and 1990 if they are willing to put their family labor in at no value and costs remained at 1984 levels.

This, of course, would not happen. Already the economic viability of many dairy farms has been stretched to the breaking point. We would see a massive exodus from the business. This would cause milk prices to rise rapidly -- to what levels, no one can predict with any accuracy. Such wild swings are not good for the dairy industry nor are they acceptable to the consumer.

Of course, it may be that administration planners have the answer to such a situation well in hand. In 1973 and 1974 we witnessed the repeated expansion of dairy product imports for the express purpose of holding down prices. That finally worked when the farm price for manufacturing milk was driven down by more than 20 percent in ninety days in mid-1974.

Dairy farmers recognize the need for policy adjustments to meet current needs. This should be done by looking at the reality of the situation and building on the lessons we have learned.

A year ago, the voting delegates at the Associated Milk Producers, Inc. annual meeting adopted the following statement:

> "AMPI favors permanent stand-by legislation to be made effective in conjunction with the exising price support program in those marketing years in which the Secretary of Agriculture estimates that CCC purchases of surplus dairy products will exceed a specified reasonable level, and suspended at the discretion of the Secretary when he estimates that CCC purchases will be below that level. The plan would provide a system of 'pooling' milk proceeds so that producers would receive commercial market prices for their pro-rata share of commercial market sales as determined by their marketing histories, and a lesser price for any additional milk deliveries, without altering the prices charged handlers and manufacturers, provided that the marketing histories of producers participating in the dairy diversion program shall not be reduced as a result of such participation."

The National Milk Producers Federation membership unanimously adopted a policy position also calling for a dairy policy employing a standby authority for the use of an incentive/penalty program when substantial adjustments in supplies are necessary.

AMPI is working within the framework of the Federation to develop a program outline that would achieve that objective.

The diversion program demonstrated the effectiveness of the supply-management concept. We must build on that experience as this legislation is developed. Inclusion of an effective supply-management provision will provide the mechanism necessary to hold down government costs, maintain farm income and assure the necessary productive capacity to meet market needs.

There are several other dairy policy questions raised with respect to the 1985 Farm Bill.

Authority for seasonal base plans and so-called "Louisville" plans under Federal milk market orders expire this year. Such programs are included as part of a number of market orders. Their purpose is quite simply to encourage dairy farmers to tailor their production to the seasonal pattern of market demand. They have been quite effective in accomplishing this. This has meant greater efficiency in the handling of market reserve supplies and, overall, has reduced the cost of milk marketing. It has meant both greater returns to producers and reduced costs to consumers. This authority should be continued.

Authority to transfer CCC held dairy products to the Veterans Administration hospitals and the military expires at the end of this year. This should be continued. This authority can be effective in reducing government costs by making beneficial use of commodities already held by the government.

The Dairy Indemnity Program also expires this year. For the past several years, proposals have been made to terminate the program as part of the budget process. Congress has rejected these plans and the program should be extended as part of this legislation. The indemnity program has been a low cost operation throughout its existence. It has, however, prevented the economic devastation of individual farms where milk is barred from the market due to the presence of pesticide, toxic chemical or nuclear residue. Safeguards are built into the program. In the case of pesticide residues, it must be established that the problem is not the result of misuse of a product by the dairyman. In the case of other residues, no indemnity will be paid if it is determined that the producer has recourse for recovery against another party.

The administration has proposed creation of a task force to study the Federal Milk Market Order Program. Frankly, we see little need for such work at this time. The 1981 Farm Bill directed a broad study of dairy policy, including Federal milk market orders. This work has been completed and its findings are available to the Secretary at present. Further, the procedures for any needed change in market orders are in place and available for use. We find it difficult to understand the potential value of duplicating the earlier work. This could, in fact, be detrimental to the extent that the existence of such a task force might be used as a reason to delay making needed order revisions pending completion of the study.

The proposed agricultural trade title advanced by the administration bill seeks to encourage or direct negotiations with U.S. trading partners for reduction of barriers to U.S. exports. In exchange, the U.S. would reduce barriers it maintains. This could be taken as a basis for elimination of the Section 22 import restraints on dairy products.

These limitations are essential to prevent the U.S. from becoming a dumping ground for world dairy surpluses. Prices in the so called world market for dairy products generally bear little relation to the value of milk used to produce the products or the price in the markets of most exporting nations.

USDA reports current "world" prices for dairy products as follows:

Butter, 82 Percent Butterfat	61 - 68 cents per pound
Cheddar Cheese	48 - 57 cents per pound
Nonfat Dairy Milk	27 - 32 cents per pound

These price levels are determined by the level of export subsidy major exporters use to move their products into international trade.

Actually, the import limits imposed by the United States can be viewed as emminently fair from the standpoint of providing market access. Since the first quotas were imposed in 1953, U.S. dairy product imports have increased by more than 500 percent. This does not include the skim milk equivalent of casein imports which continue to grow and increased the cost of the Dairy Price Support Program.

TESTIMONY OF

MR. WAYNE PALLA

I am Wayne Palla, a dairyman from Clovis, New Mexico. Our family has been engaged in dairying since my grandfather immigrated to this country from Italy and established a dairy operation near Bakersfield, California. Members of my family are still active dairymen in California. As succeeding generations of the family have entered the business, we have established our own operations.

My own dairy operations are located near Clovis, New Mexico and Canyon, Texas. Both operations are typical of the dry-lot dairies developed over the past decade in the western states. I have the capacity to milk 1,100 cows in the two locations although present operations are at a 700 cow level due to participation in the Milk Diversion Program.

In addition to the dairies, I farm about 2,000 acres of irrigated land and operate a 10,000 acre ranch. We raise a substantial portion of our feed and all of our replacement animals.

As indicated, I am participating in the Milk Diversion Program. My reason for participation was quite simple. Profit opportunities were better through participation. I analyzed the program and my own operation closely before making that decision. For me, the choice was clear.

As you look at the 1985 farm bill, I think that the word "choice" is key in making decisions on the dairy provisions. The dairy farmer needs some choice under the policy resulting from the legislation.

I am a member of Associated Milk Producers, Inc. and have participated in the cooperative's discussions of dairy policy issues for some time. As you know, we strongly support the inclusion of an effective standby supply management program as part of the new farm bill.

Some have recommended that it would be much simpler to simply provide for a price support reduction to address current problems in the dairy industry. Such an approach provides the farmer with no choice. Under a price cut, every dairyman will face reduced income until enough are forced out of business to bring prices up through a shortened market supply. There is nothing I can do as a producer to tailor my production to the needs of the market. In fact, under the price cutting approach, if I were to reduce production, I would be reducing my chances of being among those who survive the wringing out process.

As I have said, I participated in the diversion program because it improved my profit outlook. That is not to say that the program didn't have some problems. The 15 month diversion period was too short to fully accomplish the overall cutback in milk production needed. Also, the 15 month period enabled dairymen to adjust their breeding programs to be in a position to return to their former production levels rather quickly. I plan to do this-- I have to do it. If the diversion program had run for two years, this would have been more difficult. I am certain there would have been a more lasting adjustment of production with a longer program.

The many changes in program regulations made from the time the legislation was approved and the signup period ended were confusing to many and caused lower participation. Some of the regulations such as restrictions on the sale of breeding stock caused reduced participation.

Even with these shortcomings, the program has accomplished a great deal. It should be possible to develop a plan that will meet these obvious problems and still effectively meet the need at times when substantial production adjustments are needed.

In 1983 I testified before the Committee on legislation known at the time as the Dairy Compliance Program. Many features of that plan were incorporated into the diversion program. At that time, I stated that there were several strong arguements in favor of the Compliance Plan. These included:

1. It offers the dairy operator an opportunity to make his own decisions for optimum financial performance.
2. It offers the opportunity for dairy farmers to continue to be sound recipients of loans from the credit system.
3. It offers the best available option for a stable milk market.
4. It does not create a restrictive national milk market. It allows for new entry by producers.
5. It reduces government expenditures and at the same time attacks the basic problem of overproduction, providing reasons for many producers to reduce milk output.
6. It does more to preserve needed milk productive capacity and reduce unneeded capacity than any plan yet considered.

These factors stand today as the basis for my support of an effective supply management program as a part of the 1985 legislation. Such a program would be used when necessary. When it was not needed, it would not be a factor. It would leave the dairymen with the opportunity to make choices in his own operation based on what is good for him and what fits into his own long term management plan. It would not force him to expand simply for the sake of expanding.

Two years ago, the debate in Congress was between the program that became the diversion program and an alternative that simply called for price suppoprt reductions. Under the diversion program, I have reduced my operation by 400 cows. In order to maintain my cash flow under the price cut option debated in 1983, I would have had to add 150 cows to my 1,100 cow operation.

That difference should be graphic evidence of the effectiveness of the diversion program. It should also point out the flaw in the concept of price cutting as an effective means of balancing supply and demand and addressing farm income needs.

TESTIMONY OF

MR. MARVIN HORN

I am Marvin Horn, a dairy farmer from Boyden, Iowa. I am a member of Associated Milk Producers, Inc. and serve on the cooperative's corporate Board of Directors.

My dairy farm in northwestern Iowa is best described as a small family farm operation. My son farms with me and my wife. Our daughter is completing nurse's training. We have 280 acres devoted to the production of corn, oats, soybeans and alfalfa. In addition to milking 35 cows, we have a small feedlot operation and market about 700 hogs annually.

The 1985 farm bill must address the income needs of farmers if we are to prevent the most devastating decline in rural America since the depression years of the 1930's. The combination of low income and declining land values the past few years in Iowa has reduced many farmers to insolvency. This is not just a case of farmers who made bad management judgements getting caught in the adjustment taking place. Nor is the impact of this confined to the farm. It is rapidly spreading to affect farm suppliers, agricultural lenders and the entire rural economy.

Dairy farmers are presently faced with the prospect of two fifty cent price support reductions in the next few months. To the extent that these cuts are reflected in lower farm prices, it is going to mean the difference between staying in business and being forced out for many producers.

The Milk Diversion Program has shown that the supply management concept works. There were problems with the program that discouraged or prevented many farmers from participating. We did not participate in the program as it did not meet our particular needs. While our dairy operation has operated at about the same level for a number of years, our production was off by as much as 25 percent for a period during 1981, the history forming period. This illustrates one of the real problems a family farm operation faces. My wife was ill and hospitalized for an extensive period that spring. As a result, it was necessary to cut the operation back for a period of time.

The other major reason for nonparticipation was that ours is a purebred herd. The program provisions barring sale of breeding stock except for slaughter or to other program participants simply did not fit our needs.

Even though we did not, or could not, participate in the program, its effectiveness has convinced me that we need to build on this experience to include a workable supply management program as standby authority in the farm bill. Such a program, as a standby operation, would more effectively control government costs than any other recommendation advanced. It would also do more to maintain farm income than anything else.

As I indicated at the outset, farm income is the major concern that has to be addressed. Simply reducing the price support level will, eventually result in balancing supply with demand. This will, unfortunately, be accomplished only when enough farmers have been driven out of business to bring production down. In this process, however, every farmer will suffer the result of reduced income. Further, there is no way we can be assured that the adjustment made will not result in greater cutbacks than necessary. This would result in greatly increased prices. While this might sound like a good idea, I know that this is not good for the consumer and, in the long term, it is not good for the dairy farmer.

What we need in the dairy industry is stability that allows us to plan our farm operations with the knowledge that if we maintain an efficient operation we will be able to earn a reasonable return for our efforts.

The proposed phasing out of the price support program as it has operated since 1949 would, in my judgement, severely damage the ability of operations such as ours to survive. The low prices anticipated under such a plan would not allow us to earn the income necessary to maintain our operation.

TESTIMONY OF GERALD SIPPLE

BEFORE THE HOUSE LIVESTOCK DAIRY AND POULTRY SUBCOMMITTEE

Washington, D.C.
March 27, 1985

My name is Gerald Sipple, I am a dairy farmer from Menomonie, Wisconsin. I appreciate the opportunity to be here today and to share with you some of my thoughts on the farm situation.

It is probably not news to you to hear that things are not good down on the farm. The farming situation is not good on the national level and is not good in Wisconsin. Net farm income in 1985 is forecasted to be $21.5 billion which is down 16 percent from the level recorded in 1975 of $25.6 billion. The comparison in net farm income is more significant when it is deflated by the rise in the consumer price index. Using the forecasted net farm income of $21.5 billion in 1985 and deflating that number by the changes in the consumer price index since 1975, we find that the estimated net farm income in 1985 will be about $10.7 billion, down 58 percent from 1975.

Very few, if any, industries have experienced a decrease in income of 58 percent since 1975 and have survived. The demise of family farms is upon us unless action is taken to improve the economic condition of farmers in this nation.

The financial stress being experienced by farmers in this nation is reflected in a recent report by USDA's economic research service. The summary of that report states:

"Financial conditions of many farmers and farm lenders have deteriorated significantly over the past four years. Large supplies and weak demand have squeezed farm income and reduced the net worth of farmers. Many farmers face insufficient cash flow, declining asset values, problems of access to credit, and forced liquidation, foreclosure and bankruptcy. This financial stress is transmitted to farm lenders through loan delinquencies and losses, inadequate security for loans and in some cases insolvency and failure of lending institutions.

"Problems of farmers and lenders stem from a combination of lower current income in farming, prospects for slow income growth, and a drop in the value of farmers" assets as land prices adjust to these market expectations".

The extent of a farmer's financial crisis is determined by measuring his debt-to-asset ratio. The danger point is generally agreed to be when a farmer's debts are equal to or exceed 40 percent of his assets. The USDA study indicates that some 243,000 farms representing more than 11 percent of farms in this country have debt/asset ratios from 40 to 70 percent. These farms account for about one-third of all farm debt.

An additional 143,000 farms have debt/asset ratios above 70 percent. These farms account for only 6.6 percent of all farms but account for about one-fourth of all farm debt.

Combining the two groups, we find that there are 386,000 farms that have a debt/asset ratio of 40 percent or above and are experiencing financial crisis. These farms account for almost 18 percent of all farms in the U.S. and owe over 56 percent of the total farm debt.

Turning briefly to the family size farm, which has always been the backbone of agriculture in this nation, we find that more than 6 percent of the family farms have a debt/asset ratio of over 100 percent. That means their debts exceed their assets and they are technically insolvent. An additional 27 percent of the family farm operations are experiencing some financial problems and have a debt/asset ratio of between 40 and 70 percent. Combining the two groups, we find that more than one-third of the family size farm operations are experiencing financial stress.

I will not refer to the USDA study further as I am confident that you are familiar with the findings of that report. Farmers need your help. You have already demonstrated that you are aware of the farmers' problems and that you are willing to help by passing the Credit Relief Bill. However, the President's veto of that bill did not cause our problem to disappear. Farmers and rural America continue to be in desperate need of readily available sources of inexpensive credit to get us through these difficult times we find ourselves in.

Some will contend that if we made bad decisions, we should not be bailed out by the government. Some of us did make bad decisions but many of those who did, did so upon the advice of our bankers and the economists who should know more about what's going on in financing than we do. We believe that government help is in the best interest of this country. We believe that farming is just as important to the well being of this nation as the Chrysler Corporation.

The government believed helping Chrysler through its financial crisis was in the best interest of the country and provided that help. That was a good decision. We believe that providing help to farmers who are in a financial crisis is likewise a good decision. This country simply cannot afford to lose its strong agriculture base and be dependent upon foreign countries for our food. We have never gone hungry in this country and hopefully we never will. Perhaps if the consumers in this nation had gone without food as people in other countries have, it would be much easier to obtain the help that farmers so desperately need now.

Present government sources of farm credit, the Farmers Home Administration and the Small Business Administration are under attack by the administration and are not a viable source of credit for farmers experiencing financial crisis. These two agencies are in fact in the forefront of farm foreclosures.

One alternative that should be considered would be for the congress to provide that a governmental agency or agencies such as a FHA or SBA be authorized and directed to sell tax exempt bonds and use the funds derived from the sale of these bonds as a source of reduced interest loans. The tax exempt status of these bonds would likely result in interest rates low enough for farmers to borrow the money and remain viable.

It is imperative that the congress provide some form of economic safety net for rural America as a interim of measure to provide a floor under farm assets, particularly land values, which have fallen about 30 percent from the years ago. It is my understanding that the farm credit council (the legislative arm of the farm credit system) is proposing a government agency to hold non-income producing assets as a means to get working capital back into the farm system through agencies those farm in trouble and to provide a floor on farm land values. Not only are land values depressed but there are no buyers at the present depressed levels. If the government could become a buyer or holder of farm real estate, it would provide an economic safety net and a floor value for farm land.

If this country is to maintain its strong agriculture base, some form of credit relief must be forthcoming. In the absence of that relief, the financial crisis will worsen and an increasing number of farm bankruptcies will occur.

Dairy farmers are not excluded from the financial crisis. Dairy farmers recognize that even in the face of the financial crisis they are now experiencing, they must curtail the production of their product and are reducing milk production.

Extreme caution must be exercised in adjustments and changes made in dairy programs in order for these adjustments and changes to encourage farmers to adjust their production to domestic demand without contributing to the financial crisis dairy farmers find themselves in. Dairy farmers are not special, but dairying is different than the rest of agriculture. It is different because dairy farmers produce a very perishable product which requires large and specialized capital expenditures to produce. These large specialized capital expenditures need the assurance of profits over time. For that reason, price stability is not only needed but essential.

There appears to be an inherent instability in prices in the dairy industry because of the perishable nature of milk and its products and the temporary imbalances in supply and demand that occur because the seasonal highs in milk production do not correspond to the seasonal highs in milk demand. Wide fluctuations in prices are not good for farmers or consumers, and stability in prices

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[illegible]

[illegible]

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1949, except for the brief period preceding the paid diversion program, and an economic mover coupled with a diversion/penalty program would be a desirable feature in new dairy legislation. We support the continuation of Federal Milk Marketing Orders and we must have effective import controls to protect domestic dairy prices and domestic dairy farmers from destructive subsidized foreign competition.

The dairy industry has pursued a program of tailoring domestic productio to domestic markets. We have not geared our production for the export market. Recognizing our commitment to the domestic market, dairy farmers have long supported voluntary contributions to promotion and advertising programs along with research and nutrition education. The commitment to this activity continues under the Dairy and Tobacco Adjustment Act of 1983. Mid-Am continues to support this program and believes it is working as congress intended.

Thank you for allowing me to share my thoughts with you today.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION BEFORE THE SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY OF THE HOUSE AGRICULTURE COMMITTEE WITH REGARD TO THE DAIRY PROVISIONS OF THE 1985 FARM BILL

Presented by
Elton Smith, President, Michigan Farm Bureau
and Vice President of the American Farm Bureau Federation

March 27, 1985

The American Farm Bureau Federation is the nation's largest general farm organization with a membership exceeding three million families in 48 states and Puerto Rico. I serve as President of the Michigan Farm Bureau and as Vice President of the American Farm Bureau Federation. Farm Bureau appreciates the opportunity to appear before the House Agriculture Subcommittee on Livestock, Dairy and Poultry regarding our position on dairy provisions of the 1985 omnibus farm legislation that will replace the Agriculture and Food Act of 1981 when it expires this year.

The 1985 Farm Bill is a priority issue for Farm Bureau. Our farmer and rancher members produce virtually every type of commodity grown on a commercial basis in this country; those directly affected by farm programs and those that do not come under authority of this legislation.

Farm Bureau dairy producers have been active in developing our dairy position and the policies adopted at our 66th Annual Meeting in January are a result of extensive deliberation at the county, state and national levels of our organization. Our policies on dairy programs fit a broader general framework on farm programs. The dairy industry does not exist in a vacuum and therefore must be considered within the context of its interaction with livestock and feed sectors. Our policies are developed with that broad viewpoint as a major consideration.

Farm Bureau policy as adopted by voting delegates states:

"We support a farm program which will:

(1) Maximize long-term opportunities for profit in agriculture;
(2) Reduce existing incentives for overproduction at home and abroad;
(3) Ensure price competitiveness for U.S. farm products in world markets;
(4) Provide opportunities to reduce stocks through production adjustments and/or expanded demand;
(5) Assure consumers of adequate supplies of efficiently produced products they wish to consume;
(6) Cause a supply reduction program to be implemented when carryover exceeds workable levels;
(7) Provide target prices as an income supplement for farmers to help them make the adjustment to a market-responsive agriculture;

(8) Provide loan levels for all major export commodities to facilitate orderly marketing and price competitiveness. These levels should be related to a 3-5 year average domestic price. Loan levels should not provide incentives for production that exceeds demand in domestic and world markets. These levels should be adjusted annually by no more than 10 percent; and

(9) Recognize that all commodities are interrelated and any change in supply, demand or price of one affects the others."

Dairy producers currently face uncertain conditions in the industry. Market conditions and the dairy diversion program have contributed to reduce milk production from last year's levels, and dairy product sales are up. These circumstances are a welcome relief to dairy producers indicating that supply and demand may be in closer balance as we approach the 1986 marketing year. We do not project, however, that conditions will have improved enough to avoid the two support price reductions on March 31 and June 30, 1985 as authorized under current law.

We must be cautious in our outlook for the dairy industry. Some indicators are not consistent with a completely optimistic outlook for milk producers. Replacement heifers are at record levels. The milk-feed price ratio is more favorable than it was a year ago, and nearly one-fifth of the 1984 production decline can be attributed to a drop in output per cow. These conditions suggest that the production capacity of the dairy industry could easily expand under price signals that provide incentive to produce more milk.

Farm Bureau's proposal on revision of the dairy program under the 1985 Farm Bill would adjust the support price according to market signals derived from average price history and levels of government purchases. In this manner, market forces provide communication between producers and consumers while government programs give assistance for orderly marketing of dairy products.

We believe that changes in agricultural policy cannot be effective without a commitment to fiscal responsibility and reduced overall federal spending that will promote economic growth through lower interest rates, more favorable exchange rates and increased U.S. farm exports. Since this Committee hearing is concerned specifically with the dairy element of our legislative proposal, I would like to briefly present to you the dairy proposal that we will promote in the 1985 Farm Bill.

We recommend that the dairy purchase program be continued but we believe that the support rate should be set at 90 percent of the average of the previous three years' all milk price. The price support should be adjusted effective October 1 of each marketing year. This method of deriving an initial support rate incorporates the signals that are necessary to make the program more responsive to market conditions.

We further recommend that the support rate be adjusted if government purchases do not meet certain levels. We believe that the support price should be adjusted according to the following scale:

NET GOVERNMENT PURCHASES (billion pounds)	PERCENT OF SUPPORT PRICE	PROJECT ADJUSTED SUPPORT PRICE (as of 3/85)
Less than 3	104	$12.46
3.0 - 3.99	103	12.34
4.0 - 4.99	102	12.22
5.0 - 5.99	100	11.98
6.0 - 6.99	98	11.74
7.0 - 7.99	96	11.50

In addition, if purchases are projected to exceed 7.99 billion pounds during the marketing year, the Secretary would be given discretionary authority to adjust the support price by not more than 3 percent on April 1 of the marketing year and for any subsequent six month period that purchases are projected to exceed that level.

The combination of a market price used to set the support rate and a scale of adjustments to that support price will provide dairy producers a purchase program that responds to market signals. The additional 3 percent adjustment in price if purchases continue to exceed 8 billion pounds is a clear signal that government will not continue to offer increased incentives when market signals indicate that production should decrease. This program would not require adjustments to occur in an abrupt or disruptive manner, but producers would know that production and demand must be brought into balance.

We believe that these revisions to the dairy program would improve its operation for the benefit of producers and consumers alike while reducing federal expenditures. The discretion to alter the program according to political considerations is largely removed and replaced by a support price determined by indicators of market conditions. This will allow the program to flex with market forces over time, but avoid the drastic changes that can be disruptive to the industry.

Farm Bureau looks forward to working with the House Agriculture Committee and its subcommittees in the months ahead to develop a sound 1985 Farm Bill. I appreciate the opportunity to present our views and would be glad to respond to any questions.

TESTIMONY FOR
DAVID L. SENTER, NATIONAL DIRECTOR
AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. Chariman:

My name is David Senter, and I am the National Director of the American Agriculture Movement, Inc.

In government circles, it seems to be the policy that if something is working fix it!

Such was the case back when the dairy program was working to the benefit of the producer, the consumer and the government. The only missing part of the program was strict production controls in return for the pricing mechanism which allowed them to cover their production expenses and leave them a small amount of profit for their investment and labor. In the early 70's, I personally produced milk under the AMPI base plan. It worked because it kept production in relative balance with demand, and the federal government was not obligated to buy the tremendous "over-production" which we have witnessed in recent years.

It worked because the consumer could always rely on an abundant supply of wholesome dairy products at a fair and reasonable price when they made their weekly visits to the super-market. Such is not the case today, when we are seeing shortages show up in certain areas of our nation because dariy producers have elected to close down their dairies and disperse their heards because of the low return on their capital and labor.

We in the American Agriculture Movement, Inc. believe that we should take a lesson from history and go back to those programs that work. Dairy producers are willing to abide by milk bases which keep production in line with demand if only they can see a profit at the end of the tunnel.

We would also like to point out to the committee that, even under the present program, government purchases of over-production are in fact caused by imports of foreign produced dairy products, rather than from milk produced by U.S. cows!

A quick glance at the record shows that last month, the dollar value of imported casein, mostly from the Soviet Union, was greater than the dollar value of all government purchases of non-fat dry milk!

Those who argue that such imports are necessary because the U.S. does not produce enough casein to supply the demand are either stupid or very near-sighted.

Milk from a Russian cow is not different than milk from a U.S. cow and if casein cows be produced from Russian cow's milk, it can be produced from U.S. cow's milk.

If the milk which now goes into non-fat dried milk and is purchased by the federal government as surplus, was instead used in the production of casein - there would be no need for the Russian imports and no need for tax dollars being spent for the purchase of surplus dairy commodities.

But just as government seems bent on destroying the peanut program, which works to the benefit of the producer, the consumer and the government - and destroy the tobacco program, which works to the benefit of the producer, the consumer and the government - and destroying the dozens of other "marketing order" programs of special commodities which work to the benefit of the producer, the consumer and the federal government - it appears that there are some within government who would continue to push the dairy industry towards the brink of total destruction by doing away with the basic dairy program completely.

The American Agriculture Movement recommends that Congress guarantee our children the benefits of a continued supply of wholesome and healthful dairy commodities by taking "one step backward in history" to a program that did work, rather than "take a leap forward" into a program which is doomed to failure for the U.S. dairy industry! Your grand-children will thank you for your foresight.

The AAM therefore recommends that a national base plan be established for all producers, reindex milk price supports to the parity index at 70% level, stop the unlimited casein imports and put quota's in place for them.

Thank you for this opportunity to appear.

STATEMENT OF

MR. JOHN WEST
DAIRYMEN, INC.

Before the United States House of Representatives
Committee on Agriculture

Subcommittee -- Livestock, Dairy, and Poultry

March 27, 1985

Mr. Chairman,

I am John West, I am a member of Dairymen, Inc. and I operate a dairy farm located in Godwin, North Carolina. I am pleased to once again have the opportunity to appear before this subcommittee and I commend you in your efforts to assess the national dairy situation.

Mr. Chairman, Dairymen, Inc. is a regional milk and dairy product marketing cooperative owned by about 7,000 dairy farm families in 17 eastern and southeastern states. We just celebrated our 16th year of existence.

In the spring of 1983, I appeared before this Subcommittee and attempted to relay to you the current status of the dairy industry in the southeast. At that time, we strongly opposed the assessments which were in place and considered them unfair taxes on dairy farmers. We supported policies which we believed would help reduce surpluses while maintaining national dairy equity to producers and consumers. We opposed base or quota plans because the southeast was producing an ever smaller share of our country's milk supply despite an increasing population. (See Exhibit No. I.)

Once again, Mr. Chairman, I am here to communicate that the positions we held over two years ago remain our policies today. The concerns and fears that I relayed to you have in many instances materialized over the past two years. I repeat my request from two years ago and ask this Committee to hear the plea of the southeastern dairy industry and take the appropriate steps to ensure that the new dairy program put in place this fall does recognize that there are regional differences in dairy farming. If you choose to continue to ignore reality and the inequities to both southeastern dairy farmers and southeastern milk consumers, all will continue to suffer the consequences of a continual decline in milk production and a higher cost to consumers for fluid milk.

Mr. Chairman, my testimony and that of the other two representatives of Dairymen, Inc. have three objectives: First, we wish to communicate the facts regarding milk production prior to the dairy diversion program and as it now exists under the diversion program. Second, we wish to relay to you the unique nature of the southeast dairy industry and the role marketing orders play in this region. And finally, our concerns and recommendations for a dairy program which we believe recognizes the national surplus problem while treating all milk producers and milk consumers fairly.

Mr. Chairman, these last two years have caused dairy farmers in the southeast to become increasingly aware of the impact of the dairy price support program. We used to believe that it did not really affect the south. We are now definitely convinced otherwise and are here today to make you aware of its most recent impact.

I wish to present several exhibits which I believe illustrate the facts regarding milk production in the southeast. Milk production in the southeast has declined dramatically over the past year. Exhibit II details the milk diversion program participation in the southeastern states. It identifies the number of participants; the base volume of participants; the volume cut and the volume cut as a percent of 1983 production. It also contrasts these results from the southeastern states with those of the entire United States. The bottom line, Mr. Chairman, is that southeastern states participated to cut back production 9% as compared with a national reduction of 5.5%. These regional figures can be further contrasted with diversions in the northeast at about 2%, and the midwest at about 3.4%

My next exhibit, Exhibit III entitled "U.S. Milk Production", compares production figures in 1983, 1984, and those available for 1985 on a national basis. The average U.S. production decline in 1984 was 3.28%. This contrasts with

Exhibit IV entitled "Milk Production in Nine Southeastern States" which shows an average decline of 7.52% and most recent data from January of 1985 saw a 8.52% decline from 1983. Clearly, the southeast has reduced marketings at substantially greater levels than the rest of the country despite the fact that the southeast's milk production is inadequate to meet the fluid milk needs of the region.

Mr. Chairman, the next two exhibits I wish to present further exemplify the shortage of milk in the southeast since the implementation of the Dairy and Tobacco Adjustment Act of 1983, and due to lower prices, rising costs, and weather conditions in some areas of the southeast. Exhibit V and VI "Producer Milk Pooled on Twelve Southeastern Federal Milk Marketing Orders" and "Percent Class I Utilization of Producer Milk Pooled on Twelve Southeastern Federal Milk Marketing Orders" show major drops in producer milk pooled with increasing Class I sales. The percentage of producer milk allocated to Class I under the twelve Federal Orders has increased substantially. In June 1984, the increase was 12.6 percentage points over the previous year. Data for January 1985 show a 9.57% drop in producer milk pooled from 1983. Class I utilization was 9.6 percentage points above January 1983.

The effect of these radical declines in production and continuing increases in milk going to Class I use is a tremendous regional dislocation of milk in the southeast. Exhibit VII "Bulk

Receipts From Other Order Plants Twelve Southeastern Federal Orders" quantifies the amount of milk movement in 1983, 1984 and the percentage change 1983 to 1984. The amount of milk moved in the southeast hit a peak in November of 1984 with a 353.62% increase in milk movement from other Federal Orders both within and outside the southeast.

Some have lauded the dairy paid diversion program as having been a great success due to reduced government costs and declines in CCC purchases. The facts and figures I have testified to today only strengthen the arguments which I presented you two years ago -- such programs seriously worsen the milk shortage problem within the southeast. A program which cuts production most significantly in areas which are in a deficit position cannot be viewed as completely successful. Rather it reinforces the inequity of such plans.

Thank you.

(Exhibits follow:)

EXHIBIT I

MILK PRODUCTION IN THE SOUTHEASTERN UNITED STATES AS A PERCENTAGE OF TOTAL MILK PRODUCTION

Month	1983	1984	% Change From '83 to '84
January	10.70	10.26	-0.59
February	10.70	10.17	-2.11
March	10.80	10.20	-2.54
April	10.60	10.31	-2.46
May	10.30	9.80	-3.08
June	9.83	9.15	-4.41
July	9.61	9.22	-4.66
August	9.78	9.41	-3.99
September	9.98	9.71	-3.93
October	10.18	9.72	-4.23
November	10.30	9.17	-4.10
December	10.40	10.03	-3.33

Source: "Milk Production", Crop Reporting Board, SRS, Washington, D.C.

EXHIBIT II

MILK DIVERSION PROGRAM
SOUTHEASTERN UNITED STATES

STATE	NUMBER PARTICIPANTS	BASE VOLUME OF PARTICIPANTS	CUT BY PARTICIPANTS		CUT AS % OF 1983 PRODUCTION
			VOLUME	% OF BASE	
AL	172	240.0	63.0	26.2	11.3
FL	185	1,200.0	317.0	26.4	15.0
GA	363	580.0	150.0	25.9	10.6
KY	1,783	946.9	250.0	26.4	10.3
LA	307	347.0	85.9	24.8	9.0
MS	354	326.0	87.6	26.9	9.9
NC	225	304.9	67.3	22.1	4.0
SC	85	149.2	32.9	22.1	5.8
TN	897	751.0	196.9	26.2	8.8
VA	423	476.6	101.1	21.2	4.8
TOTAL	4,794	5,321.6	1,351.7	25.4	9.0
US	37,530	37,500.0	7,400.0	22.8	5.5

Source: "Dairy Market News" (Week of February 6-10, 1984)

EXHIBIT III

U.S. MILK PRODUCTION (Mil. Lbs.)

Mo.	1983	1984	% Change From 1983	1985	% Change From 1983
Jan.	11,443	11,375	-0.59	11,209	-2.04
Feb.	10,707	10,855	-2.11		
Mar.	12,029	11,723	-2.54		
Apr.	11,956	11,662	-2.46		
May	12,616	12,227	-3.08		
Jun.	12,261	11,720	-4.41		
Jul.	12,046	11,485	-4.66		
Aug.	11,672	11,206	-3.99		
Sep.	11,218	10,777	-3.93		
Oct.	11,400	10,918	-4.23		
Nov.	10,979	10,529	-4.10		
Dec.	11,345	10,967	-3.33		

Source: "Milk Production", Crop Reporting Board, SRS, Washington, D.C.

EXHIBIT IV

MILK PRODUCTION IN NINE SOUTHEASTERN STATES*
(Million Lbs.)

Mo.	1983	1984	% Change From 1983	1985	% Change From 1983
Jan.	1,233	1,168	-5.27	1,128	-8.52
Feb.	1,146	1,105	-6.90		
Mar.	1,302	1,200	-7.83		
Apr.	1,277	1,203	-5.79		
May	1,302	1,199	-7.91		
Jun.	1,205	1,072	-11.04		
Jul.	1,158	1,059	-8.55		
Aug.	1,141	1,055	-7.54		
Sep.	1,119	1,047	-6.43		
Oct.	1,161	1,062	-8.53		
Nov.	1,136	1,050	-7.57		
Dec.	1,183	1,101	-6.93		

* Includes Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Tennessee, and Virginia.

Source: "Milk Production", Crop Reporting Board, SRS, Washington, D.C.

EXHIBIT V

PRODUCER MILK POOLED ON TWELVE SOUTHEASTERN FEDERAL MILK MARKETING ORDERS

Mo.	1983	1984	Percent Change From 1983	1985	Percent Change From 1983
Jan.	933,534,845	855,436,553	-8.37	844,172,646	-9.57
Feb.	854,793,932	810,894,327	-8.41		
Mar.	979,927,554	882,070,487	-9.99		
Apr.	926,669,453	861,086,400	-7.08		
May	939,473,668	833,308,969	-11.30		
Jun.	848,454,657	724,800,682	-14.57		
Jul.	806,814,856	735,229,732	-8.87		
Aug.	803,931,553	730,583,983	-9.12		
Sep.	794,373,002	723,503,383	-8.92		
Oct.	830,917,511	749,975,802	-9.74		
Nov.	828,287,460	749,500,323	-9.51		
Dec.	870,191,433	812,781,278	-6.60		

Southeastern Federal Orders:

1006	Upper Florida	1093	Alabama-W. Florida
1007	Georgia	1094	New Orleans-Miss.
1011	Tennessee Valley	1096	Greater Louisiana
1012	Tampa Bay	1097	Memphis
1013	Southeastern Florida	1098	Nashville
1046	Lou-Lex-Evans	1099	Paducah

Source: Monthly statistics published by respective Market Administrator Offices.

EXHIBIT VI

PERCENT CLASS I UTILIZATION OF PRODUCER MILK POOLED ON TWELVE SOUTHEASTERN FEDERAL MILK MARKETING ORDERS

Mo.	1983	1984	Change From 1983	1985	Change From 1983
Jan.	72.9	78.6	+5.7	82.5	+9.6
Feb.	72.7	77.5	+4.8		
Mar.	69.7	78.3	+8.6		
Apr.	69.9	72.9	+3.0		
May	67.1	78.1	+11.0		
Jun.	69.7	82.3	+12.6		
Jul.	73.4	80.7	+7.3		
Aug.	78.0	85.8	+7.8		
Sep.	83.4	84.3	+0.9		
Oct.	79.3	88.0	+8.7		
Nov.	77.3	85.9	+8.6		
Dec.	75.7	78.1	+2.4		

Southeastern Federal Orders:
1006 Upper Florida
1007 Georgia
1011 Tennessee Valley
1012 Tampa Bay
1013 Southeastern Florida
1046 Lou-Lex-Evans
1093 Alabama-W. Florida
1094 New Orleans-Miss.
1096 Greater Louisiana
1097 Memphis
1098 Nashville
1099 Paducah

Source: Monthly statistics published by respective Market Administrator Offices.

EXHIBIT VII

3/8/85

Bulk Receipts from Other Order Plants
Twelve Southeastern Federal Orders
(Excludes Requested Cl. II/III)

	Total Pounds 1983	Total Pounds 1984	Pounds Change 1983 to 1984	Percent Change 1983 to 1984
January	8,713,904	15,772,038	7,058,134	81.00
February	7,125,797	13,801,766	6,675,969	93.69
March	8,635,468	10,198,193	1,562,725	18.10
April	9,362,361	11,905,584	2,543,223	27.16
May	10,565,540	12,988,242	2,422,702	22.93
June	12,889,468	25,053,374	12,163,906	94.37
July	20,836,065	40,598,634	19,762,569	94.85
August	29,043,899	44,377,964	15,334,065	52.80
September	32,178,191	58,893,851	26,715,660	83.02
October	20,039,891	65,419,848	45,379,957	226.45
November	13,048,970	59,192,348	46,143,378	353.62
December	13,170,268	41,756,838	28,586,570	217.05
Total	185,609,822	399,958,680	214,348,858	115.48

Southeastern Federal Orders:

1006 Upper Florida	1093 Alabama-West Florida
1007 Georgia	1094 New Orleans-Mississippi
1011 Tennessee Valley	1096 Greater Louisiana
1012 Tampa Bay	1097 Memphis
1013 Southeastern Florida	1098 Nashville
1046 Louisville-Lexington-Evansville	1099 Paducah

Source: Market Administrators of respective Orders.

STATEMENT OF

MR. BILLY SPENCER
DAIRYMEN, INC.

Before the United States House of Representatives
Committee on Agriculture

Subcommittee -- Livestock, Dairy, and Poultry

March 27, 1985

Mr. Chairman,

I am Billy Spencer from Lawrenceburg, Kentucky. I am also a Member of Dairymen, Inc. Thank you for allowing me to appear before your subcommittee to discuss the dairy situation in the southeast and our views on the dairy program for the 1985 Farm Bill.

John West and George McDonald have just relayed to you the unique characteristics of dairy farming in the southeast.

As a consequence of these characteristics, it is not surprising that southern dairymen tend to favor market oriented price support policies. They receive only indirect, not direct, benefits from CCC purchase activities. Nor is it surprising that a considerably larger proportionate sign-up for the $10.00/cwt diversion payment occurred in the south last year. As a result, local shortages of milk in the south developed despite a condition of continuing abundant supplies on a national basis. Southern dairy farmers had to pay a dear price to bid milk away from plants in the midwest that were still spewing out butter, cheese and power destined for government warehouses. These facts must be considered when you write your dairy program for the 1985 Farm Bill.

The current Farm Bill will expire in 1985 and many concepts for a new support program are being offered. The milk support price program worked well in the early years. However, in recent years, the support program has become THE MARKET rather than THE SUPPORT.

Dairymen's concept of future milk price supports was approved by the Dairymen Board of Directors in March of 1984. This program is as follows:

1. THE BASIC SUPPORT PRICE MOVER SHOULD BE DAIRY SPECIFIC. Milk prices have been based on a general farm parity formula. The program needs a price mover that relates more specifically to conditions that directly influence milk production.

2. THE PROGRAM SHOULD BE MARKET ORIENTED WITH A SAFETY NET AND INCLUDE A TRIGGER MECHANISM BASED ON GOVERNMENT PURCHASES. The Price Support Program must recognize and adjust to the market for dairy products. A program that allows production to increase at a faster rate than the market is no longer acceptable. The Price

Support Program should provide a safety net to prevent such low prices that would cause long-term damage to the industry.

3. THE PRICE SUPPORT SHOULD RECOGNIZE CHANGES IN PRODUCTIVITY WHICH COULD BE MEASURED BY PROXY SUCH AS PRODUCTION PER COW.

4. THE PRICE SUPPORT SHOULD USE ONLY PRICE TO CONTROL SUPPLY WITH NO NATIONAL QUOTAS, DIVERSION PAYMENTS AND NO ASSESSMENTS.

   Diversion payments and assessments have been used recently to deal with the large surplus of milk production. In the interest of dairy industry and the public, only price should be used to balance supplies with demand.

5. THE PRICE SUPPORT PROGRAM SHOULD ALLOW SOME DISCRETION ON THE PART OF THE SECRETARY OF AGRICULTURE. The development of a formula that results in exactly the correct price adjustments is virtually impossible. Allowing the Secretary of Agriculture some discretion makes a more workable program.

We also recommend an uncomplicated support program. It must be simple enough to be understood by those directly affected and by those who do not work with the program on a regular basis. It should be easy and inexpensive to administer. We believe our concept meets these criteria.

And too, the support program must maintain effective import controls to keep the United States from becoming the price supporter and dumping ground for the dairy production of the entire world.

One final point. Dairying is an integral party of the total U.S. Agricultural Industry; recent experience shows that dairy farmers cannot do well very long when the rest of agriculture is depressed. Therefore, we have a vested interest in seeing that all U.S. agriculture does well.

The 1985 Farm Bill will most likely be a comprehensive package. We need to support basic legislation for agriculture. Important issues include trade expansion and reasonable trade policies that reflect the realities of today's world trade.

We strongly support the implementation of the Section 416 program in wheat and dairy products, as well as the expanded program for ultra-high temperature milk. Through programs such as these, the bounty of the U.S. dairy farmer can make substantial progress in aiding developing countries. Agriculture is still our largest industry and it is our best candidate to reduce our international trade deficit.

If agricultural exports cannot be expanded to the point that farming shares in the prosperity of this country, then we need to look hard and seriously to a program that will adjust farm output to our domestic markets. Otherwise, a depressed agriculture will lead this country into more serious economic problems.

Thank you.

national milk producers federation

1840 Wilson Blvd., Arlington, VA 22201
(703) 243-6111

James C. Barr, CAE
Chief Executive Officer

The National Milk Producers Federation is a national farm commodity organization representing virtually all of the dairy farmer cooperatives and their dairy farmer members who serve this nation by producing and marketing milk in every state in the Union.

Since its inception in 1916, the Federation has actively participated in the development of dairy programs which are a part of a total system of agricultural law and policy which can appropriately be termed a national food policy.

The policies of the Federation are determined by its membership on a basis that assures participation from across the nation. The policy positions expressed by NMPF are thus the only nationwide expression of dairy farmers and their cooperatives on national public policy.

Before the

LIVESTOCK, DAIRY AND POULTRY SUBCOMMITTEE

of the

COMMITTEE ON AGRICULTURE

U.S. HOUSE OF REPRESENTATIVES

With respect to
the Dairy Price Support Program

March 27, 1985

Norman H. Barker
Route 1
Pratt, Kansas 67124
(316) 672-6735

President
National Milk Producers Federation

Mr. Chairman, I am Norman H. Barker, President of the National Milk Producers Federation. I am a dairy farmer from Pratt, Kansas and a member of Associated Milk Producers, Inc., a dairy marketing cooperative association, headquartered in San Antonio, Texas. I commend you for conducting these hearings---a vital step in the development of a farm program to benefit not only agriculture, but the country as a whole.

The Federation

The National Milk Producers Federation is the national farm commodity organization representing dairy cooperative marketing associations owned and operated by dairy farmers throughout the nation. Most of the nation's milk supply is marketed through the cooperative associations represented by the Federation. Organized in 1916, the Federation is the oldest and largest farm commodity organization in the United States and the only organization whose policy represents a national consensus of dairy farmers.

Through the Federation, dairy farmers and their cooperatives have worked to develop government programs that can provide needed stability and orderly marketing conditions to the dairy industry. There is an inherent instability in the marketing of milk because milk is bulky and highly perishable and because production varies seasonally while demand is relatively steady throughout the year. In the absence of these valuable programs, destructive competition, price wars and other disorderly marketing conditions would again be prevalent as they were before the inception of the present dairy policy.

National Dairy Policy

The Federation develops programs and policies which, in combination, represent a National Dairy Policy. As such they are an integral part of the food policy complex that has assured the production of adequate supplies of food for the American people. The elements of this dairy policy include:

1. To foster the development and growth of cooperative marketing by farmers. The Capper-Volstead Act of 1922 which extends a limited antitrust exemption to farmers so as to permit them to engage in joint marketing efforts is the cornerstone of this effort.
2. To seek a minimum level of price assurance to dairy farmers. The Dairy Price Support Program assures all dairy farmers a reasonable level of price against which plans and investments can be made. While operation of the program is focused on milk used in the production of manufactured dairy products, the pricing structure for fluid milk covered under Federal Milk Marketing Orders is such that the price support program directly affects price levels for all milk.
3. To seek to maintain orderly marketing conditions through the establishment of known terms and conditions for milk marketing between dairy farmers and milk processers. The Federal Milk Marketing Order Program provides for the classification of milk according to its use, the establishment of minimum prices for milk used in each class, the equitable distribution among the producers supplying the market of the proceeds from the sale of all milk in the market, and the verification through impartial audit of tests, weights and the utilization of milk supplied to the market.

4. To assure effective operation of our domestic dairy programs and policies by supporting limitation on dairy product imports. Conditions are such in the world market for dairy products that prices are determined primarily by the export subsidy policies of major exporting nations. If the U.S. allows this market to be used as a dumping ground for the surplus production of other nations, the best conceived and managed cooperative marketing programs, the best administered Price Support Program and the most effective Marketing Order Program would be rendered useless under the weight of unneeded stocks of dairy products.
5. To maintain the integrity of dairy products. We support all measures designed to assure the consumer that products offered as traditional dairy products are, in fact, genuine dairy products and that they are pure and wholesome. In recent years, policies of the Food and Drug Administration have sought to promote the marketing of ersatz dairy products on the basis of the unsound, unscientific concept of "nutritional equivalency." In doing so, the agency has promoted consumer deception and confusion in contravention of the directive from the Congress under which it operates.

My statement today will be primarily directed toward what we believe is the necessary shape of a Dairy Support Program which will mesh into a general agriculture policy. A strong and fair agriculture policy must be developed this year to assure a continued variety of nutritious food for the American consumer at reasonable prices.

I will also be addressing the need for additional authority for the Federal Milk Order Program, the need to extend the Dairy Indemnity Program, the need for continued strong commodity distribution programs, and the need for continued restriction of dairy imports.

Dairy Price Support Program

The basic objective of the Dairy Price Support Program as amended by the Agriculture and Consumer Protection Act of 1973 continues to be a valid statement of the need for some government intervention in the dairy economy.

The very nature of the commodity, milk, makes instability in its production and marketing inherent. Because milk is a bulky, perishable product whose production is dependent upon the biological processes of a cow, the ability of price to properly coordinate production, assembly, processing and marketing with consumption is greatly impaired.

It takes between two and one-half and three years to bring a dairy cow on to the milking string after the initial decision to breed the mother cow. Once producing, the milk from that dairy cow must be marketed daily because in its raw form milk is very perishable. Because milk is highly susceptible to contamination from bacteria and other contaminates, it must be produced and handled under very sanitary conditions. Milk that cannot be consumed in fluid form within a short period of time must be converted into more storable manufactured products. Price provides the fundamental coordination of these activities but care must be taken. Once a dairy cow has been slaughtered without a planned replacement, her productive capacity will take years to replace.

It is the need to overcome these problems that can result from complete reliance on free-market price that justifies some government involvement in the dairy industry. The objective of the Price Support Program, "an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs," is met by reducing some of the pricing risks of the marketplace.

A pricing criteria which seeks to balance supply and demand in the longrun must be followed if the program is to be operated in such a way that interests of dairy farmers and the taxpaying consumers, which also includes dairy farmers, are best served.

By assuring a floor under which the price of milk should not fall, dairy farmers are encouraged to make the necessary investment of time and capital in the dairy cows, equipment and facilities that can be combined into an efficient and productive unit. The assurance of a minimum price, however, is accompanied by almost equal assurance that prices will not sky rocket. Efficient operation of the program results in sufficient purchases during the flush season which may be released during the season of short supply to moderate price peaks. The operation of the support program moderates decreases and increases in productive capacity which provides for a more stable price situation for producers and a continually adequate supply for consumers.

The Agriculture and Food Act of 1981 directed the U.S. Department of Agriculture to submit to Congress a "Review of Existing and Alternative Federal Dairy Programs." One of the important findings of that report was:

> "The stabilizing influence of price supports contributes positively to economic efficiency. To the extent that dairy farmers or their lenders are risk-averse, the greater the risk associated with a farming enterprise, the greater the return required to induce investment in that enterprise. Moreover, stability facilitates more efficient planning and allows better use of fixed plants and equipment. Hence, to the extent that the price support program reduces price risk and stabilizes output, production is greater at any given average price than it would be without supports." (page 35)

We fully support this conclusion. Although direct measures of the benefits of supply enhancement cannot be made, indirect evidence abounds.

Reviewing the price of milk and dairy products since the program's inception (Table 1) shows that consumers have benefited in real terms. Looking at the time worked by the average U.S. wage earner to earn the money to buy a given quantity of milk and dairy products shows that it has declined almost steadily. When the program was developed in 1950, 15.8 minutes of work was required to purchase a one-half gallon of milk. Last year only 7.4 minutes were required, a decline of nearly 55 percent.

TABLE 1

Time Worked To Earn Money To Purchase 1/

	Butter, 1-lb.	Milk at stores, 1/2-gal.	American cheese, 1/2-lb.	Ice cream, 1/2-gal.
			(Minutes)	
1950	29.6	15.8	11.7	35.6 2/
1955	22.5	13.8	10.2	26.6
1960	19.5	12.8	9.0	22.2
1965	17.3	10.9	8.7	18.1
1970	15.5	10.3	9.0	15.1
1971	14.5	9.9	8.9	14.4
1972	13.7	9.4	8.5	13.5
1973	13.4	9.6	8.9	13.3
1974	12.8	10.4	9.9	14.6
1975	12.7	9.6	9.5	15.2
1976	14.7	9.3	9.9	14.6
1977	14.3	8.7	9.4	14.3
1978	14.5	8.4	9.3	14.2
1979	15.1	8.6	9.6	14.6
1980	15.5	8.7	9.7	15.0
1981	15.0	8.4	9.6	15.1
1982	14.4	7.9	9.3	14.8
1983	14.0	7.7	9.0	14.7
1984	13.8	7.4	8.8	14.5

1/ Based on hourly wage rates of all manufacturing industries. 2/ 1951.

Also as evidence, the price of milk and dairy products has not increased as much as the other items consumers buy. Reviewing the changes in the Index of Dairy Product Prices compared with the Consumer Price Index and the Index For All Food (Table 2) shows that dairy product prices have increased only 75 percent as much as the prices of all foods, and only 73 percent as much as the items in the Consumer Price Index.

TABLE 2

Selected Price Indexes

	CPI	All Food (1967 = 100)	Dairy Products
1970	116.3	114.9	111.8
1975	161.2	175.4	156.6
1976	170.5	180.8	169.3
1977	181.5	192.2	173.9
1978	195.4	211.4	185.6
1979	217.4	234.5	207.1
1980	246.8	254.6	227.4
1981	272.4	274.6	243.6
1982	289.1	285.7	247.0
1983	298.4	291.7	250.0
1984	311.1	302.9	253.2

The Dairy Price Support Program has provided a stability that has allowed dairy farmers to make long term commitments leading to greater efficiencies on the farm. These have resulted in reduced labor requirements and increased production per cow. In 1950, dairy farmers devoted an average of 2.36 hours of labor to the production of 100 pounds of milk. By 1983, that had declined to 0.22 hours. In 1950, the average dairy cow produced 5,314 pounds of milk. Last year, 1984 production per cow in the United States averaged 12,495 pounds of milk.

Recent Problems

The long run accomplishments of the program must be admired. However, circumstances in the past five years outside of those which can be impacted by the Dairy Program, have put the program in jeopardy. Many of these circumstances were the direct result of government actions and the resulting impacts on the national and the international economies.

In 1979, an embargo on grain sales to the Soviet Union severely depressed the price of grain domestically and has had continuing repercussions on grain exports. With the loss of markets and faced with prices below the cost of production, many grain farmers chose to market their product in the form of milk, a commodity where some profit remained. Cheap and abundant grain also encourage existing dairy farmers to feed their dairy cows better and to increase their herd size.

As we moved into the early 1980's, high double digit inflation negatively impacted on the economy and brought on double digit unemployment. With a lack of other employment alternatives, the normal attrition of dairy farmers was halted and the available labor supply to the dairy farmer became plentiful and reasonably priced. Many a son who normally would have left the dairy farm for a job in town found that his best and possibly his only opportunity was to stay on the farm. To support two families, the father's and the son's, it was necessary to expand the milking operation. The combination of these circumstances which also included seemingly unlimited credit resulted in an expansion of milk production from 123.4 billion pound in 1979 to 140.0 billion pounds in 1983, an increase of 13.5 percent.

Milk Diversion Program

As surplus continued to mount in the early 1980's (from 8.2 billion pounds in marketing year 1980 to 16.6 billion pounds in MY 1983) numerous alternatives to stem production were suggested and three were implemented before a reasonable and workable one was found.

The first action was to eliminated the semi-annual adjustment due in the support price on April 1, 1981. Next the 1981 Farm Bill froze the support price at $13.10 for marketing year 1982. That law also established pricing criteria for marketing years 1983, 1984 and 1985, thus giving the dairy farmer something to plan against. However, the Omnibus Budget Reconciliation Act of 1982 changed the dairy program. The 1982 Act continued to hold $13.10 as the support level but provided for two $.50 assessments, the second of which was refundable.

The uncertainty from continually changing programs, the discontent with a $.50 assessment that they could do nothing about, and the delays in program implementation caused by court challenges all resulted in continued milk production expansion because dairy farmers feared the future.

Finally on November 30, 1983, President Reagan signed into law a program devised here in the Congress which has worked.

Yes, the Milk Diversion Program has been a success. However, prior to looking at specifics, a couple of observations are in order. For the dairy industry, a diversion program was an entirely new experience, unlike grain producers who have had decades of experience with such supply management programs.

To further complicate matters, dairy farmers had a very short period in which to learn about the program and to decide whether or not to participate.

On November 30, 1983 the Milk Diversion Program was signed into law with an effective date of January 1, 1984. Contracting had to be completed by January 31, 1984. In less than two months time, a dairy farmer had to analyze the program as enacted and compare the options if he participated with those of non-participation. If the farmer decided to participate, he had to gather sufficient data and documents to fulfill the requirements of participation, file the required information and sign a contract at his local Agricultural Stabilization and Conservation Service (ASCS) county office. All this had to be done in less than [illegible] months time. The program actually began January 1, 1984, one month before the contracts had to be signed.

Despite the dairy industry's lack of experience with diversion programs and despite the abbreviated sign-up period, about one in every five commercial dairy farms participated (38,000) in the program. Table 3 illustrates that in 1984, the first 12 months of the diversion program, provided a reversal in the continual trend of production increases. For 1984, milk production dropped 4.6 billion pounds versus a 4.2 billion pound increase the previous year.

TABLE 3

Milk Production 1980-1984

Year	Milk (bil. lbs.)	Quantity Change (bil. lbs.)
1980	128.4	5.0
1981	132.8	4.4
1982	135.5	2.7
1983	139.7	4.2
1984	135.1 1/	- 4.6

1/ Adjusted for leap year

Due to the significant decline in production and increase in consumption, CCC purchase levels of 1984 were almost half of those of the previous year (Table 4).

TABLE 4

Net CCC Purchases 1980-1984

Year	Milk Equivalents (mil. lbs.)	Quantity Change (mil. lbs.)
1980	8,799.9	6,680.8
1981	12,860.9	4,061.0
1982	14,281.3	1,420.4
1983	16,813.7	2,532.4
1984	8,645.2	- 8,168.5

Government purchases for 1984 were 8.6 billion pounds milk equivalent. This was 8.2 billion pounds less than 1983 purchases. Table 5 then indicates the resultant reduction of government expenditures.

TABLE 5
Net Expenditures on Dairy Price Support
and Related Programs

Marketing Year	Net Expenditures (mil. dol.)	Change (mil. dol.)
1979-80	1,279.8	1,029.2
1980-81	1,974.8	695.0
1981-82	2,239.2	264.4
1982-83	2,600.4	361.2
1983-84	1,597.5	- 1,002.9

For the 1983-84 marketing year, net government expenditures were reduced over one billion dollars (down almost 40 percent). An even greater savings would have been indicated if the data were available on a calendar year basis, thereby separating program and nonprogram periods.

Since the Milk Diversion Program is not scheduled to end until March 31, 1985, and final reports of participation are not required until June 30, only preliminary data are available to analyze the effects of the program.

The U.S. Department of Agriculture has published certain data for the first nine months (January-September, 1984) of the program. In total, the study included monthly milk marketing records for over 100,000 farms representing 60 percent of the total U.S. milk marketings. Data collected were then used to compare participants and nonparticipants and showed the following results. During the first nine months of the Milk Diversion Program, which began in January 1984, participants decreased marketings 25.5 percent relative to the base period. Compared to their marketings in 1983, participants decreased marketings by 22.2 percent.

In comparison of 1984-to-1983 marketings by nonparticipants, they increased 2.2 percent. Among the nonparticipants, there were 44.9 percent who decreased marketings which represented twice as many farms as the group of participants. The nonparticipants who decreased marketings did so at only about one half the rate of participants. Those nonparticipants who increased marketings did so at the rate of about 13 percent. Available data indicate that all nonparticipants in total increased marketings about 6.8 percent above a 1982 base.

Besides the Milk Diversion Program, the 1983 Dairy and Tobacco Adjustment Act authorized a $.15 per hundredweight assessment on milk marketings to finance a dairy product research and promotion program. The majority of this money has been allocated for dairy product promotion with a portion being spent on funding research and educational programs. Promotional activities, funded by collections, first began in September 1984. As these activities are only in their sixth month, only very preliminary data are available. However, we are hopeful that the activities of the National Dairy Board will, in fact, increase consumer awareness of the nutritional benefits of dairy products and further stimulate consumer demand. Past research on the impacts of dairy product promotional campaigns give us reason to be very optimistic about the results.

Dairy Support Program For The 1985 Farm Bill and Beyond

The Milk Diversion Program and the Avertising and Promotion Program authorized by the Dairy and Tobacco Adjustment Act of 1983 have gone a long way towards balancing the supply and demand situation for milk and dairy products. CCC purchases have been cut in half, the cost of the purchase program has been reduced by more than one billion dollars and the Milk Diversion Program has been financed and paid for by dairy farmers--it has been a successful self-help program.

However, the supply-demand imbalance is not totally solved. We still have more resources in the production of milk today than are needed to meet the demand for milk and dairy products. Our projections for supply and utilization for the current year indicate that net CCC purchases may still reach about eight billion pounds milk equivalent. (Appendix 1)

The Federation fully recognizes that further steps must be taken to bring supply and demand into closer balance. It is the basic goal of the Federation to bring about this necessary reduction in the surplus without destroying the milk industry in the process.

It was with this goal in mind that the Board of Directors and the voting delegates of the National Producers Federation have met during the past year to develop a program that will bring supply and demand into balance and keep it there while giving farmers the assurances and stability they need to continue to produce an adequate supply of milk for consumers at reasonable prices. At our annual meeting in November last year, our voting delegates approved the four program objectives to be used by the Federation in the development of the program for the 1985 Farm Bill:

1. To assure an adequate supply of pure and wholesome milk for domestic consumption.
2. To stabilize prices but only to the degree that in the long run market prices are allowed to adjust the resources in milk production to the demand for milk and dairy products.
3. To encourage market growth and the consumption of milk and dairy products.
4. To provide for standby authority for the use of an incentive/penalty program when substantial adjustments in supplies are necessary.

The National Milk Producers Federation recommends that the 1985 Farm Bill provide authority for a dairy program with the following elements:

Purchase Program

It is vital that a purchase program continue to be the method used to support the price of milk. The Agricultural Act of 1949 authorized that the price of milk be supported through the purchases of milk and milk products. This system has worked well and has provided stability in the market prices of milk and dairy products that could not be attained by any other method. Product removal from the market during the flush production months has prevented "fire sale" prices and maintained markets for producers. During most years of program operation, there have been adequate supplies available in CCC storage to moderate increases in milk prices during the short season. Thus, false signals of surplus or shortages have not been transmitted to the farmer through market prices and unneeded resources have not left nor been drawn into milk production because of seasonal price swings.

The purchase program has also been more reflective of supply and demand conditions and has sent market signals to the farmer more quickly than any other program could have done. A target price-deficiency payment program such as used in many of the row crop commodities would not work well for dairy products. A target price-deficiency payment does not give a true signal to producers. Such a program guarantees a minimum price to producers whether or not market conditions justify such a price. The Dairy Price Support Program as it has operated with a purchase program assures processors of manufactured products an adequate return with which they may pay dairy farmers the support price for milk. If a manufactured product's processor finds that he need not pay the support level to attain an adequate supply for his plant, he is not required by law to do so. This allows the true supply-demand signal to be transmitted to dairy farmers almost immediately. Reviewing U.S. manufacturing milk prices compared to the support price in recent years, we can see that as the supply of milk began exceeding the demand the farm milk prices fell below the support level and has stayed below the support level from April, 1980 until last fall. Had a target price-deficiency payment been in effect during this period, dairy farmers would have continued to produce at the support price level knowing that any deficiency in market price below the support level would be made up by a direct payment.

The purchase program has also provided valuable dairy products for the use of government in many of the nutrition and needy assistance programs. The School Lunch, Elderly Feeding and WIC programs have all benefited from dairy products acquired under the support program. Were these commodities not made available directly to these individuals, some other method of government assistance would have to be devised to provide the same nutrition and assistance.

We fully support the continuation of a purchase program which buys butter, non-fat dry milk and cheese at prices which allow manufacturing plants of average efficiency to pay at least the support price to dairy farmers.

Dairy Pricing Index

Permanent legislation relies upon parity as the standard by which the support price of milk should be established. The Federation supports continued use of an indexing concept for establishing the support level of milk to assure an adequate supply. However, we believe that the current parity formula may have developed some undesirable aspects which will make it less useful as a price setter in the future. The 1910-14 base period is antiquated and many problems are created by continuing to relate back to a base period which bears little resemblance to the present. The method of calculating the adjusted base price tends to unduly increase the parity price for milk because milk prices have increased more rapidly than the index of prices received for all farm products. This fact, along with the increased productivity on dairy farms, appears to have shifted the applicable range at which parity could be applied from 75 to 90 percent to some much lower range.

Another problem with the continued use of parity is that milk is one of the few commodities and is the only major commodity which still uses parity as a basis for establishing prices. Thus, the consistency which was provided when parity was used to establish all product prices has been lost.

Recognizing these problems, the Board of Directors of the National Milk Producers Federation, directed the development of new dairy pricing index which could be included in the 1985 Farm Bill as a means of establishing a support price for milk. The Board of Directors felt that any formula should reflect the cost of producing milk, the economic conditions in the other segments of agriculture and the economic conditions in the general economy. Based on these guidelines, the Federation has developed a new dairy pricing index. A report on this index, along with the specifics of its operation is offered to the Committee as part of the hearing record.

The new Dairy Pricing Index relates the costs that dairy farmers face today with those in the three-year period, 1976-1978, which was a fairly balanced period for milk supply and demand. The index gives a weight of 80 percent to the cash expenses of dairy farmers. The weights given to the specific cash expense factors were derived from the "Cost of Production Study" published by the U.S. Department of Agriculture. There are sixteen individual factors in the formula which represent cash outlays. These include feed, farm services and cash rent, interest, farm wage rates, fuels and energy and tractor and self-propelled machinery. The factor feed carries the weight of 33 percent in the formula, but in terms of cash expenses, the feed factor represents 41.25 percent. By contrast, feed represents less than ten percent of the index we now use, hardly reflective of the actual cost of feed to a dairy farmer.

The heavier weight of feed also represents an opportunity cost to dairy farmers who can sell their homegrown feed commercially rather than feeding it to their livestock.

In addition, a factor representing prices received for meat animals is included in the formula and weighted at 10 percent to represent the dairy farmer's alternative of selling dairy animals for meat rather than keeping them for milk. Including these opportunity costs in the formula is consistent with the directive of our Board of Directors to tie milk prices to the conditions in the other sectors of agriculture.

The final ten percent in the formula is represented by the Consumer Price Index (CPI). Inclusion of this factor in the formula ties milk prices to what is happening in the general economy and reflects in the index the increases in cost that dairy farmers and their families face in their daily living.

The index generated by these 18 factors is then adjusted by a cost of production adjuster. An integral part of the formula, this adjuster reflects the changes in inputs needed to produce one hundred pounds of milk. The adjuster is tied to output per cow and reflects the changes in inputs needs to produce one hundred pounds of milk since the base period. The inclusion of this factor in the formula will keep the formula viable in reflecting accurately the changes in the cost of producing milk for many years to come.

The adjusted index is then multiplied times the base price of $8.33 to determine the support price for the coming marketing year. The base price of $8.33 is the average of milk prices during those months in the base period (1976-1978) when the Commodity Credit Corporation was in the market purchasing substantial quantities of dairy products.

Supply-Demand Adjuster

Recognizing that no formula devised can adequately reflect all of the conditions which impact on the supply and demand for dairy products and recognizing that the factors in the formula are based on historical data and therefore, may not truly reflect the conditions which will exist in the future, the Federation has constructed a supply-demand adjuster to fine-tune the support price generated by the formula.

The supply-demand adjuster is a schedule of price increases and decreases which relate to expected net purchases by the Commodity Credit Corporation (CCC) of dairy products during the coming marketing year. The supply-demand adjuster is designed to result in CCC net purchases between three and five billion pounds, a level felt necessary to assure price stability and provide U.S.D.A. the commodities necessary to meet their program needs.

If the Secretary of Agriculture estimates that the support price generated by the dairy pricing index would call forth less than three billion pounds of milk, the supply-demand adjuster would require that the support price be increased to generate additional supplies. However, should the Secretary's estimate of CCC purchases be above five billion pounds milk equivalent, the supply-demand adjuster would require that the support price be decreased. In addition to the mandatory price increases and decreases provided at each level of surplus, there is discretion given to the Secretary to further increase the price signal being sent to dairy farmers. The supply-demand adjuster proposed is as follows:

Supply-Demand Adjuster

CCC Purchases (Billions of lbs.)	Mandatory Price Adjustment (percent)	Discretionary Price Adjustment (percent)
Less than 1	+ 7.8	unlimited
1 to 1.99	+ 5.2	up to + 7.3
2 to 2.99	+ 2.6	up to + 5.2
3 to 3.99	0	up to + 2.6
4 to 4.99	0	down to - 2.6
5 to 5.99	- 2.6	down to - 5.2
6 to 6.99	- 5.2	down to - 7.8
7 and over	- 7.8	0

The above supply-demand adjuster at current milk price levels would provide for a maximum downward price adjustment of approximately $1 dollar per hundredweight.

Incentive/Penalty Program

The final provision of our program would be some type of incentive/penalty program that would be available for use when significant adjustment in supply is necessary.

We fully expect that the operation of the dairy pricing index and the supply-demand adjuster will keep relative balance in supply and demand most of the time. The adjustments provided in these prices are large enough and occur soon enough to send an early and definite signal to dairy farmers when they are producing too little or too much milk.

We are, however, in a period of rapidly advancing technology—in a period where rapid changes in exogenous factors can bring great volatility to the dairy industry. We are hearing more and more about scientific advancements such as bovine growth hormones or embryo transplants, which if they become common management practice among dairy farmers, could substantially increase our ability to produce milk in a very short period of time. Such advancements likely would occur more quickly than could be adequately reflected in the formula in time to bring about an orderly reduction of the resources in milk production.

Total reliance on price to make a massive adjustment in resources is not satisfactory. Such a method requires that the entire industry suffer under the burden of excessively low prices until our productive capacity is reduced down to demand levels. We believe that standby authority for some type of incentive/penalty program to bring about adjustments, such as the current milk diversion program has, would keep the industry healthier and therefore, the program would continue to meet its objective of assuring an adequate supply.

There are many forms that such an incentive/penalty program could take. The program might be voluntary or mandatory on every producer. It could provide payments to producers who reduce production or could involve penalties on producers who overproduce. It could be funded by a general assessment on all milk marketed or use only government funds. Perhaps government responsibility could be limited at some level, either in terms of dollars spent or billions of pounds purchased. There could be exemptions for farmers who raise and sell registered breeding stock and some provision could be made to protect the producers of other commodities. These are just some of the areas that have to be addressed and decided upon in the development of a program that will provide an industry consensus.

The Federation has been working diligently over the past months trying to gain a consensus on the final shape of such an incentive/penalty program. In addition, we will be meeting with representatives of the livestock industry who expressed concerns about the operation of the milk diversion plan presently in affect.

At this point, we do not have agreement to the specific details of an incentive/penalty program, however, I am happy to tell you that honest negotiations continue and the prospects for accommodating the various views and developing a consensus program are good. The alternative offered by the administration, which is in effect a non-program, has made each of us more willing to set aside our own parochial ambitions and desires in order to accommodate the dairy industry as a whole. The eleventh hour is drawing near and decisions will be made on program specifics. I ask your permission, Mr. Chairman, to bring the program to you when we have reached a consensus.

The type of incentive/penalty program we have in mind is not one that would become effective and place the industry in a restrictive straight jacket from now until eternity. What we have in mind is a program that will become effective when some extraordinary condition creates an extraordinary imbalance between supply and demand. The purpose of the program would be to return balance to the industry. Once balance was returned, the program would terminate. The value of such a program has been recognized not only by many in the dairy industry but also by independent experts in their analysis of dairy programs. In the previously noted Department of Agriculture study which was directed by the Agriculture Act of 1981, it was concluded that "Despite their disadvantages, supply controlled programs might possibly serve as temporary measures to bring production into line with use." (Page 86)

An incentive/penalty program applied for a temporary time would give us positive results in two fashions. First, those inefficient dairy farmers who are already suffering from low prices would be given the time and possibly the cash incentive to transfer their resources from the production of milk into the production of some other commodity where, hopefully, they would be more successful. Secondly, a percentage of the productive capacity would be diverted to some later period when it will be needed to meet future demand increases. This is certainly consistent with the language contained in the permanent authority for the program which requires the Secretary of Agriculture to "maintain productive capacity sufficient to meet anticipated future needs."

Federal Milk Marketing Order Program

The Federal Milk Marketing Order Program is authorized by the Agricultural Marketing Agreement Act of 1937 as amended. The program facilitates the orderly marketing of milk between producers and milk processors by establishing a structure that assures equitable treatment for the parties involved. This is accomplished by:

1. Providing that all milk entering the market be classified according to use.
2. Establishing minimum prices for the milk used in each classification.
3. Providing a means of equitably distributing the proceeds from the sale of all milk in the market among producers supplying that market.
4. Verifying the accuracy of reports of milk use and the accuracy of test and weights of all milk marketed.

Although the Milk Order Program is fifty years old, it has remained a viable and effective instrument which has assured a continuing supply of fluid milk at reasonable prices. The success of the program has not been left to chance but has been the result of continued attention of all parties involved to keep the program reflective of the current conditions surrounding the marketing of milk.

The Federation has reviewed the authorities provided in the Agricultural Marketing Agreement Act of 1937 as amended and recommends to you that you consider making the following amendments in those authorities:

Permanent Extension of Authorities To Provide For Seasonal Base Excess Plans And "Louisville" Take-Out Pay-Back Plans Which are Designed to Encourage More Even Production of Milk During the Year

The specific authority for seasonal base plans and seasonal pricing plans has been separately stated in the basic legislation since 1970. These programs have shown to be useful in evening out seasonal production patterns. Presently, eight markets use the "Louisville Plan" for paying producers. This plan operates by withholding certain monies from producers during the heavy flush producing months and returning those monies to producers during the tighter fall production months.

There are ten markets currently using seasonal base excess plans for paying producers. Producers delivering milk to these markets during the short production period establish a daily base of deliveries. Then during the flush production period, producers are paid a higher price for deliveries within their base and a lower excess price for deliveries in excess of their established base.

We would support making these provisions a permanent part of the authorizing legislation.

Marketwide Service Payments

We recommend the Agricultural Marketing Agreement Act of 1937 as follows:

"(1) amending section 8c(5)(E) by inserting before the period at the end thereof a comma and the following: "from producers or associations of producers, and (iii) for payment from the total use value of milk under paragraph (A), before computing uniform prices under paragraph (B) and reflecting adjustments in payments as among handlers under paragraph (C), to cooperative marketing associations qualified as provided in paragraph (F) of this subsection and to other qualified marketing agencies for services of marketwide benefit including, but not limited to the following-

"(a) providing facilities to handle and dispose of milk supplies in excess of quantities needed by handlers and to furnish additional supplies of milk needed by handlers;

"(b) handling of milk on specific days in excess of the quantities needed by handlers;

"(c) transporting milk from one location to another for the purpose of fulfilling requirements for a higher class utilization or providing a market outlet at any class of utilization; and

"(d) performing other marketwide services."

The present authority which calls for paying uniform blend prices to all producers which are subject only to location, butterfat and other adjustments does not cover the costs of marketing agencies servicing the fluid market. At the present time, the cost of performing certain marketwide services generally is born by the cooperative association performing those services and therefore, by just the members of those cooperatives. Non-members or members of cooperative associations not performing these services gain the advantage without participating in the cost of servicing and maintaining the market. In most cases, full service cooperatives have committed themselves to providing marketwide services and therefore, will be the primary benefactor of this amendment. However, other marketing agencies do perform services of benefit to all producers and therefore, would qualify for payment. Under the proposed amendment, authority would be provided to include provisions in orders for reimbursement for such marketwide services. Payments to these qualifying organizations would be deducted from funds due dairy farmers before computation of the uniform price for all milk marketed under the order. Thus, the cost of servicing the market would be borne by all dairy farmers whether or not the association they delivered milk to actually performed the services.

One of the primary marketwide services is providing seasonal balancing for the market. Because milk production is seasonal in nature, if we are to assure an adequate supply of milk for consumers during the low production period, there will be an excess in the flush production months. To stabilize this situation and to provide a market for this excess milk, it is necessary to have facilities available to process this milk into manufactured products. Such facilities are generally high cost operations since they operate on highly fluctuating volumes of milk. These plants operate at partial capacity much of the year, and many days of the year may receive no milk at all. The marketing agency assuming this burden provides a needed and irreplaceable service to the entire market, but the cost of the service falls generally to those marketing agencies which provide the service. To assure equity among all producers delivering to the market, some manner should be provided to equitably distribute the cost of these services. Again, I would like to reference the Department of Agriculture study directed by the Agricultural Act of 1981 which found, "Paying uniform blend prices to all producers subject to location differentials and certain other adjustments does not adequately reward producers for servicing the fluid market...Providing payments from pool revenues for bona fide marketwide services has some economic justification...." (Page 88)

Status of Producer Handlers

Under Federal Milk Marketing Orders, producer handlers are dairy farmers who market milk of their own production directly to consumers. The Agricultural Market Agreement Act of 1937, as amended, provides for the regulation of producer handlers as any other handlers under the terms of Federal Milk Marketing Orders. Administratively, however, a determination has been made that producer handlers whose marketings are comprised solely of milk of their own production are not subject to the terms of a marketing order where one is in effect.

The past several general farm bills have included a brief statement of position by the Congress making it clear that the legal status of producer handlers of milk under Federal Milk Marketing Orders will be the same following the adoption of this legislation as it was prior to its consideration.

The provision makes no change in current law, however, it does make clear that no change is intended.

The Federation recommends that this provision be included in the new legislation.

Dairy Indemnity Program

The Federation recommends that the provisions of the Dairy Indemnity Program be extended for a four year period.

The program authorizes payment to dairy farmers for the value of milk removed from the market due to the presence of residues of pesticides, toxic chemicals, or nuclear fallout if the residues are present through no fault on the part of the farmer.

Initially authorized in 1968, the program grew out of a situation in which dairy farmers were using pesticides for purposes and in a manner approved by the Federal government but were having their milk barred from the market due to residue. The discovery of the residue was largely the result of improved testing techniques.

Authority for payments in the event of nuclear fallout or toxic chemical residue was added in 1977. In the case of toxic chemical residue, the law specifically bars indemnity payments if the Secretary of Agriculture determines that the farmer has legal recourse against other parties available.

Outlays under the program have been small. During the past two years, average expenditures were $5.25 million, while average expenditures for the ten years preceding that was only $65,000. These are not large amounts, but it has meant the difference between continuing in the dairy business and being forced out for producers caught in tragic situations. It does afford them a continuing source of income while the necessary steps to remove the residue problem are taken.

Transfer of Dairy Products to the Military and Veterans Hospitals

The Federation recommends a four year extension of the authority contained in Section 202 of the Agricultural Act of 1949. This authority has been used to make available additional quantities of dairy products for use in these government facilities. Such product use provides a beneficial use of available stocks of dairy products and helps to reduce the cost of overall government operations. The law does require that any products transferred be in addition to normal use levels so as to prevent interference by government with normal marketing operations. We would also urge that the Committee direct a more aggressive attitude on the part of the government agencies involved toward the use of this authority and other existing programs for use of food stocks held by the Commodity Credit Corporation.

Support of Nutrition Assistance Programs and Public Law 480

As you consider the provisions of the 1985 farm bill, we wish to make a few comments regarding legislation and programs which complement specific commodity programs and thus contribute to the comprehensive and sound National food policy.

We must be ever mindful of those among us in our nation who are most vulnerable--the elderly, the young and the disadvantaged. It is essential that we maintain strong programs by providing adequate funds and commodity donations to help these special people. Food stamps, school lunches, the Women's, Infants and Children Supplemental Feeding program, Child Care, Summer Feeding, Elderly Nutrition and the Special Milk Programs have all served to raise the quality of life in our country. Commodity distribution programs which distribute products through schools and prisons and the Temporary Food Assistance Program which distributes food through food banks and soup kitchens are important companion programs to the dairy and other commodity support programs. We support all improvements to these commodity distribution programs including the continuation of the National Commodity Processing program. We support legislation introduced in the House and Senate to improve nutrition monitoring, with the provision that USDA be designated lead nutrition agency. This could be assured through legislative language as a part of this comprehensive farm bill.

Likewise, we must be ever mindful of those beyond our shores who are less fortunate and we must share our agricultural abundance through donation where needed. We support expansion of Public Law 480 provisions and permanent legislation making international commodities a bonus item as provided in Section 416 of the Agricultural Act of 1949.

Import Control

The Administration's policy as stated in S. 501, is to promote free and active world trade in agricultural goods and to reduce or eliminate U.S. restrictions on such commodities. Neither the Dairy Price Support Program nor the American dairy industry as we know it today, can exist under present conditions of world trade without effective and consistent import control.

Under existing law (Section 22 of the Agricultural Adjustment Act as amended), quotas are established on certain dairy products as a means of limiting imports when it is found that they are interfering with the operation of the Dairy Price Support Program. At the present time, dairy product imports are limited under Section 22 to a combined annual total of 2,234,270,000 pounds milk equivalent. Despite this limitation, imports in 1984 totaled 2,741,430,000 pounds milk equivalent according to the U.S. Department of Commerce.

Of the total cheese imports in 1983, 60.2 million pounds were non-quota type cheeses which are produced either in limited quantities in this country or not produced at all. We cannot quarrel with the import of these cheeses for they expand a variety of products available to the American consumer and likely increase consumer's taste for all milk and dairy products.

However, why should the American dairy farmer bear the cost of lost markets or have their domestic markets undermined by the mistakes of other countries. Most imports of dairy products into this country represent the lowest class of dairy products. If import restrictions were relaxed, this is the category that would increase. These products, most of which enter this country highly subsidized, displace domestic products and erode from the bottom the pricing structure for all milk marketed.

The American dairy industry has no designs on the markets of other countries. Our efforts are directed at programs which will enable the American dairy farmer to produce an adequate supply of pure and wholesome milk for domestic consumption.

It is naive of the Administration to lump milk in with all the other commodities that must rely on export markets as well as the domestic market to dispose of their commodities. The American dairy farmer has realized early on that it cannot compete with the treasuries of other countries who are willing to subsidize the export of their commodities into world markets.

Opening the U.S. coastline to subsidized dairy imports to benefit the American consumer is a naive objective. It must be realized that those countries who subsidize the export of their products are not doing so to provide American consumers with low price products, but are doing so to minimize the cost of their own domestic programs. If heavily subsidized imports are allowed to enter this country unchecked, it will destroy the capacity of the domestic industry to supply domestic needs. Once the domestic productive resources are gone and this country is in need of dairy products, we will see the cheap subsidized dairy products disappear, for it will no longer be necessary to subsidize products to move them into this market.

We implore the Congress to reject any attempts by the administration to reduce the protection given dairy farmers and consumers under Section 22.

Milk Protein Imports

There is a need to curb the growing level of milk protein imports into this country. This includes products such as casein, mixtures of casein, lactalbumin and whey protein concentrates. Casein is the major category of these imports. Historically, casein has been used in such industrial applications as paints, adhesives, paper coatings and plastics. In recent years, however, these uses have declined as synthetic products have displaced casein.

As this has taken place, there has been a shift in the use of casein to food and animal feed production. In 1955 the U.S. Department of Agriculture estimated that less than two percent of the 77.5 million pounds of casein utilized in the United States during the year, went into food and animal feed products. A study by the U.S. Department of Agriculture concluded that in 1980 87 percent of the casein entering this country was used in food or animal feed products.

Casein is a pure milk protein. It has a wide range of uses in the production of such foods as ersatz dairy products, coffee whiteners, frozen desserts and whipped toppings, bakery products, breakfast foods, diet foods and in calf milk replacer and other animal feeds including pet feeds.

The 1980 U.S.D.A. study of casein identified the displacement by imports of casein and lactalbumin an equivalent of 333 million pounds of nonfat dry milk which ended up being purchased by the Commodity Credit Corporation in 1980. The cost of these imports to the Commodity Credit Corporation was more than $300 million dollars, which was more than 25 percent of the cost of the program that year. Although the case was presented to the International Trade Commission in 1981, it was their interpretation that the import of these products was not materially interfering with the operation of the Dairy Price Support Program. Imports of casein in 1980, the year of the study, totaled 150 million pounds. In 1984 casein imports had increased to over 190 million pounds.

We continue to be amazed by the incredible finding of the International Trade Commission as do many members of Congress. Each year since that decision, bills have been introduced both in the House and Senate in an attempt to stem the damage from the import of casein. Currently, Mr. Rose of North Carolina and Mr. Roth of Wisconsin, have introduced bills limiting the import of milk proteins to some historical level. We fully support the passage of such legislation.

Administration's Proposal--Dairy Programs

The Dairy Price Support Program proposed by the Administration is in effect, a "non-program." Although certain dairy provisions continue through 1991, they are so ineffective as to not be a program at all. In the Administration's title-by-title cost estimates, outlays are shown for Fiscal Year 1987 and Fiscal Year 1988, but the Administration expects no outlays beyond that point. Their proposed price level, 75 percent of the preceding three year average market price, leaves dairy farmers completely vulnerable to price uncertainty. Allowing that much volatility in prices will discourage the continued investment in dairying which has provided an adequate supply of milk at reasonable cost to consumers. Again, I would like to quote from USDA's "Review of Existing and Alternative Federal Dairy Programs," the report commissioned by the 1981 Farm Bill. That report concluded that "An appropriate degree of milk price stabilization by government may actually lower average milk prices to consumers over the longrun." (Page 85) It would be a disaster for dairy farmers and consumers alike, if any program along the lines of that proposed by the Administration were allowed to replace some reasonable dairy program.

In addition, the Administration in its proposed legislation is calling for a study of Federal milk marketing orders. We do not need another study of the order program. In 1981, Congress directed the U.S. Department of Agriculture to study all dairy programs including the Federal Milk Order Program. That study was a thorough analysis of the impact of orders on producers, processors, distributors and consumers, and did make recommendations for changes, both regulatory and legislative, which would improve the operations of the orders. As I noted before, the USDA study supported the type of legislative changes that we are seeking in the 1985 farm bill which will allow the orders to more effectively distribute the cost of performing services of benefit to all producers in an order. There have been no significant changes in conditions, or situations, nor any major technical changes since the completion of that study which would warrant the time and expense involved in another study. Such efforts now should be directed to the implementation of those recommendations from USDA's study.

Summary

The proposals outlined in this statement respond to existing needs and will develop the atmosphere within which a strong dairy industry will continue in the future:

- The Dairy Price Support Program should be maintained as the essential policy element providing needed price assurance and stability. The structure of a dairy program should contain the following elements:
  (1) A purchase program
  (2) A dairy pricing index to establish support prices
  (3) A supply-demand adjuster to adjust support prices relative to expected CCC net purchases
  (4) A standby authority for an incentive/penalty program to be used when substantial adjustment in supplies is necessary.
- The Federal Milk Order Program should be strengthened by making the authority for seasonal incentive plans permanent. Also, authorities should be provided in the authorizing legislation to allow for the payment for marketwide services from the pool before computation of blend prices.
- The Dairy Indemnity Program should be continued. The program is a low cost, highly effective program which assists dairy farmers whose milk is barred from the market through no fault of their own.
- The transfer of dairy products to military and veterans' administration hospitals should be continued to make effective use of dairy products available from CCC inventories.
- Curbing the impact of milk protein products as required by existing laws will reduce government costs and permit more effective operation of support and marketing programs.

(Attachments follow:)

APPENDIX 1

MILK SUPPLY AND UTILIZATION

	1982/83	1983/84	1984/85	1985/86 4/
		Bil. lbs.		
Production	138.8	136.8	136.1	137.7
Farm Use	2.4	3.5	3.1	2.3
Marketings	136.4	133.3 3/	133.0 3/	135.4
Beg. Com'l Stks	4.6	5.2	5.2	4.6
Imports	2.6	2.8	2.8	2.8
Total Com'l Sply	143.6	141.3	141.0	142.8
Com'l Use	121.8	125.7	128.5	130.4
End. Stks.	5.2	5.2	4.6	5.6
Total Utilz.	127.0	130.9	133.1	136.0
CCC Purchases	16.6	10.4	7.9	6.8
Purchase Cost	$2,597M	$1,768M	$1,295M	$1,052M 1/
Administration 2/	$ 255M	$ 346M	$ 300M	$ 200M
Total Expenditure	$2,852M	$2,114M	$1,595M	$1,252M

1/ See quarterly breakout

2/ Administration, transportation, packaging, handling and storage.

3/ Assumes collection of $.50 on 99.5% of all milk marketed.

4/ Assumed support price of $11.60 - $11.86.

Statement Addendum

The final element of our program is the authority for a Milk Diversion Program to be used when substantial adjustment in supply is necessary.

After making the adjustment in the support price required by the supply-demand adjuster, the Secretary would again estimate CCC purchases for the coming year. Based on this second estimate:

-- If government purchases are estimated below five billion pounds, milk equivalent, there will be no assessments and no diversion program. The purchase program would be used as the sole mechanism to carry out the support program.

-- If purchases are estimated between five and seven billion pounds milk equivalent, the Secretary shall have the discretion of implementing a diversion program coupled with an assessment. The assessment would apply to all milk and would pay all program costs in excess of the dollars the government would spend to purchase and store five billion pounds.

-- If government purchases are estimated greater than seven billion pounds milk equivalent, the Secretary shall institute a diversion program coupled with an assessment. Again, the assessment would pay for all program costs in excess of five billion pounds.

The Milk Diversion Program would be very similar to the program effective in 1984. The base period for producers would be the twelve-month period ending June 30, immediately prior to the announcement of program implementation. If producers had participated in the 1984-85 Milk Diversion Program, their bases would be adjusted to reflect that fact. For those producers who voluntarily decide to participate in the program, contracts would be signed for reductions of between five and thirty percent of their bases. A $10 per hundredweight payment would be made for all reductions if a producer reduced marketings at least five percent. If the participation level is such that a deficit would occur, the Secretary would have the discretion to adjust all contracts equally. However, the Secretary could not adjust a contract so as to eliminate a producer from participation in the program by reducing his participation level below five percent. The Secretary would also have the discretion to adjust all contracts after assessing the possible impacts of this program on other commodities. There would be no limitation on individual payments under the program.

This standby authority for a Milk Diversion Program coupled with our other three elements--the purchase program, the new dairy pricing index, and the supply-demand adjuster make a complete dairy program that should serve farmers and consumers well in the future.

FARMERS UNION
Milk Marketing Cooperative

STATEMENT OF

FARMERS UNION MILK MARKETING COOPERATIVE
3225 East Washington Avenue
Madison, Wisconsin 53704

Presented by

Douglas J. Caruso
General Manager

Before the

House Agriculture Committee
Subcommittee on Dairy and Poultry

1300 Longworth House Office Building
Washington, D.C. 20515

March 27, 1985

Mr. Chairman. I appreciate the opportunity to testify today on behalf of Farmers Union Milk Marketing Cooperative, a Wisconsin based cooperative with more than 7,000 dairy farmer members in seven states -- Wisconsin, Minnesota, Iowa, Illinois, Michigan, Nebraska and South Dakota.

On February 23, 1985, more than 600 of our members participated in our Annual Member Meeting and adopted the following statement regarding immediate and long term dairy policy:

Current Dairy Policy

Despite its flaws, the Milk Diversion Program has been effective in reducing surplus dairy production and government program costs while protecting the income of dairy producers. We recommend that the diversion program be extended beyond its scheduled April 1, 1985 expiration date to prevent a return to the serious overproduction problem during the interim period in which Congress develops a new program. A new contract period should be established to bring more producers into the program, using the most current base period possible. Authority for additional price support reductions on April 1 and July 1, 1985 should be repealed to prevent further reductions in farm income.

1985 Farm Bill

Federal dairy policy should provide adequate supplies of milk and dairy products to consumers at fair prices and ensure commercial family-sized producers a fair return on investment and profit on their production.

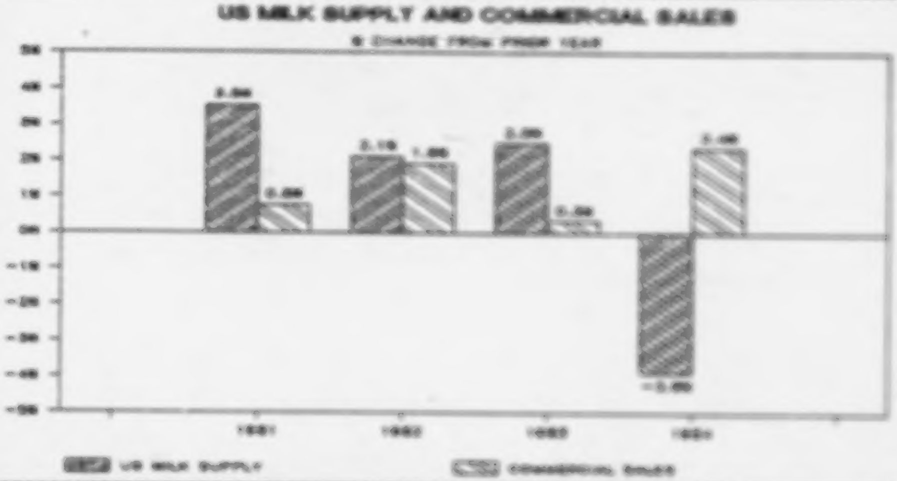
We ask Congress to approve a dairy supply management program suitable to the needs of commercial family-sized producers, with accomodation for those just starting out, yet capable of curbing production in regions where larger dairy operations predominate. Like the current diversion program, the new program may be financed in part by dairy farmers themselves and provide adequate incentives for those who voluntarily reduce production. The support price should be maintained at its current level at the very least and ideally be increased to more accurately reflect increased production costs.

If a target pricing program for dairy is developed as proposed in Washington, per-farm payment limitations should be maintained at or above the current $50,000 ceiling to provide meaningful assistance to the majority of Midwest dairy producers. Anything less would amount to a welfare program for part-time farmers rather than the true supply management needed by the dairy industry.

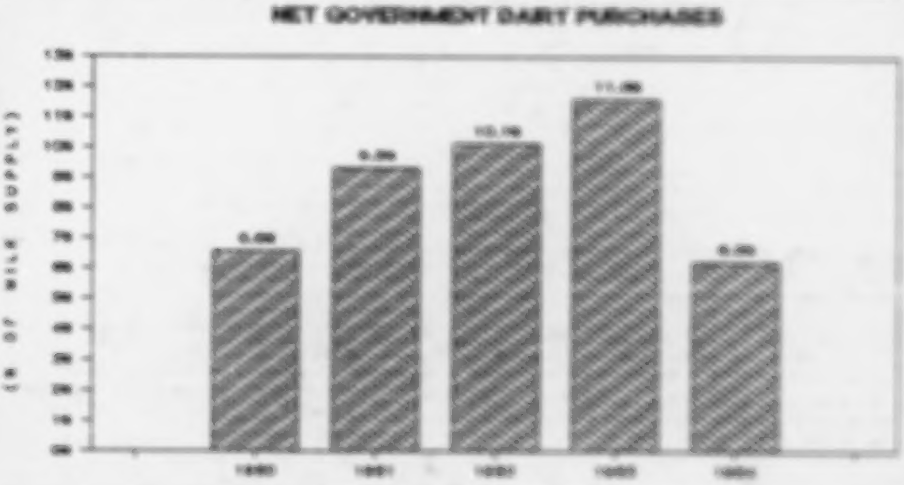
Payment limits should apply only to net benefits received by individual producers, i.e., gross benefits received minus producer contributions to the dairy program.

The dairy industry has made substantial progress over the past 15 months toward the broadly supported objective of balancing domestic milk supplies and demand.

The nation's milk supply fell nearly 4% in 1984 from a year earlier, the first year to year decline since 1978. A nearly 5% reduction in milk marketed by U.S. dairy farmers was the major reason the milk supply shrunk. Meanwhile, commercial sales of milk and dairy products climbed nearly 2.5% in 1984 compared to 1983, the largest year to year sales gain in over a decade.



These dramatic shifts in supply and demand sharply reduced government purchases of surplus dairy products in 1984. Net purchases of surplus dairy products by USDA's Commodity Credit Corporation declined nearly 50% in 1984 to the equivalent of 8.4 billion pounds of milk, down from 1983's record 16.8 billion pounds. 1984 saw the first year to year decline in government removals since 1978, and not since 1979 has the government played such a small role in the market.



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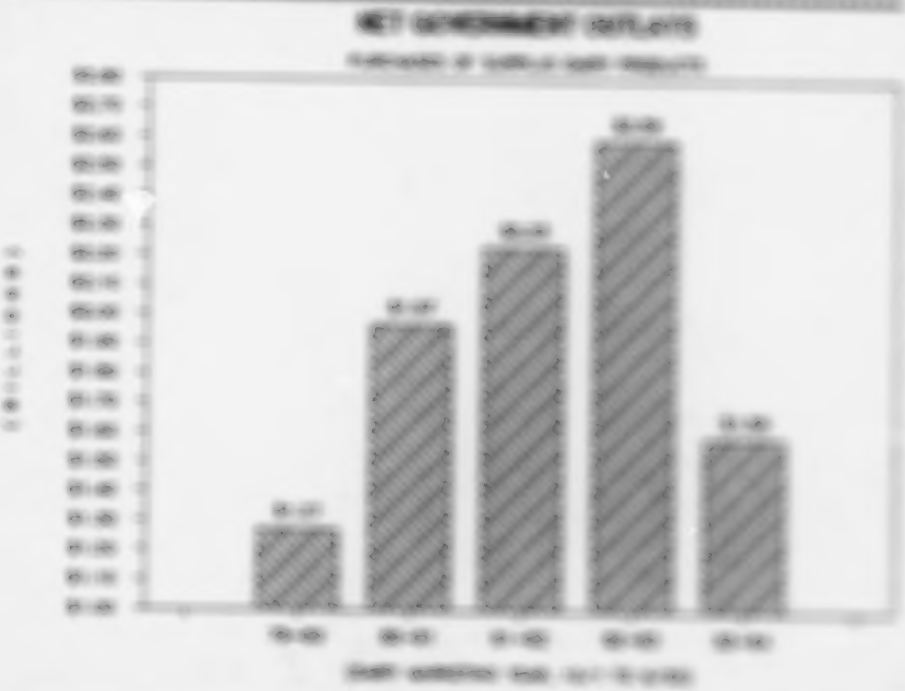
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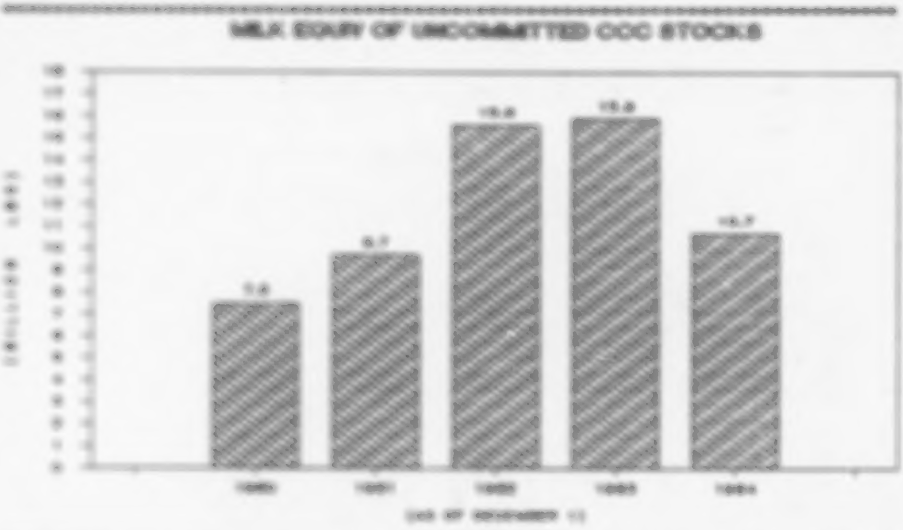


The rapid and dramatic improvement in the dairy situation is, in our view, persuasive evidence that their are more effective ways to influence supply and demand than simply adjusting the support price. Afterall, from 1981 to 1983 producer prices were steadily reduced in real terms with no appreciable impact on the supply - demand imbalance. In fact, it was the failure of that approach, in our opinion, that prompted the Congress in 1983 to experiment with a voluntary supply management program.

Critics of the Milk Diversion Program are quick to argue that the program has not eliminated the capacity of the dairy industry to produce substantially more milk than the commercial market requires. We agree that that is a problem.

But the lack of a long term, sustained impact from this program is due to its limited duration and pre-ordained termination. It was constructed as a short term, one shot effort over 15 months. In our view, this is the major reason to renew and extend the use of voluntary supply management, not a reason to abandon it. Let's build on what we have achieved.... not junk our gains to return to an approach that was even less effective.

We are not insensitive to the increased regionalism the Milk Diversion Program has stimulated in the dairy industry. In our view, the adjustment that was necessary in our industry, the adjustment that was encouraged by the Milk Diversion Program, is inevitably painful for the industry and producers. Traditionally, lower prices have been the primary tool used to adjust production and the pain of such adjustments has been concentrated in the upper midwest. The Milk Diversion Program spread the pain more broadly and into some regions that heretofore were only minimally involved in downward adjustments in milk production.

I was one of the people involved in the initial development of the paid diversion plan back in late 1982 and early 1983. Back then we called it the voluntary incentive plan, although it was commonly known in these parts as the "Wisconsin Plan." Some substantial changes were made in our original proposal, most notably the duration of the program, as Congress and the Administration negotiated the compromise legislation finally enacted late in 1983, but the key elements stayed... the $10 payment rate, the 5% to 30% participation range and self financing via the 50-cent assessment.

I well recall the two most argued issues from those early meetings before these key items were agreed on. They centered on the assessment and payment rate. The assessment was naturally unpopular with producers and it caused a number of us considerable discomfort to contemplate vigorously lobbying for a program in which an assessment was an integral component.

But the real concern over the assessment and payment rate was their regional implications. Few people seem even aware of something that gravely concerned us. The 50-cent assessment... the program's stick... was a bigger stick in the upper midwest than in other regions. Midwest producers, who receive the lowest prices in the nation, would pay the largest penalties as a percentage of their gross milk income. Producers in higher priced regions would be penalized a smaller percentage of their milk checks.

Likewise, the $10 payment rate was and is a greater incentive to upper midwest producers than producers in regions with higher prices.

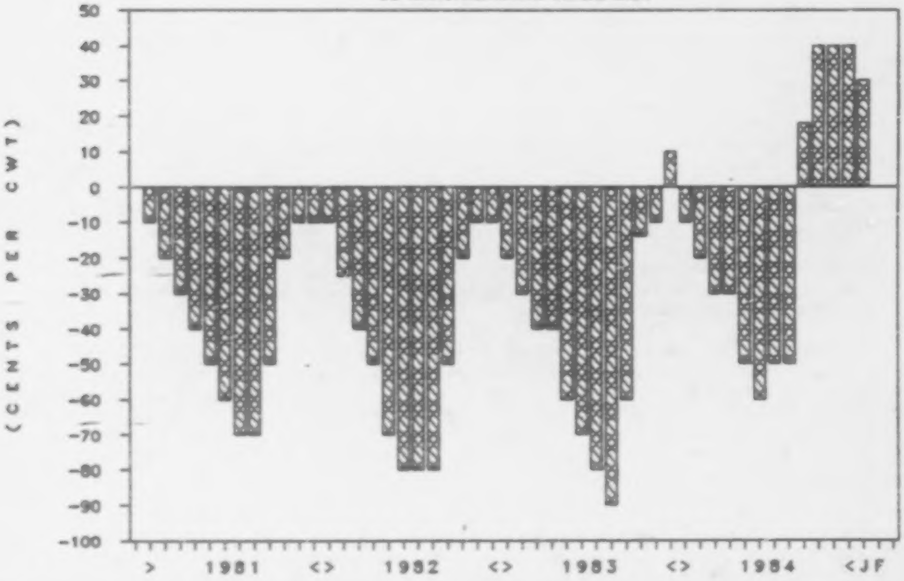
We were very concerned that the relatively larger stick and carrot in the upper midwest would prompt a disproportionately larger participation there compared to other regions.

Our fears were somewhat abated by the results of a poll of producers nationally conducted by Hoard's Dairyman magazine, who's publisher and editor, William Knox, was a key participant in the working group that developed initial version. The survey showed little or no regional pattern to participation. It seemed the major factors that would influence participation were individual, personal situations on the farm, not any regional factor.

In our view, the program attracted those producers, regardless of what region they live in, who were most able to reduce production. The program didn't force reduction on anyone, instead it augmented natural forces. A mandatory supply management plan tends to pressure all producers into making equal reductions, irregardless of their individual circumstances. The voluntary approach, in our view, obtained reductions where they were most easily achieved and, similarly, didn't attempt to force reductions on farms where, for whatever reason, resistance would be greatest.

I know it is no consolation to my colleagues in the southeast that the program wasn't designed or intended to harm them. They must deal with the reality, not the intentions. But a reality that cannot be ignored is that while southern marketers may be the most adverse to the diversion program, southern producers obviously found it quite appealing, and voted their cows for it.

It's not hard to understand the appeal of the diversion program to producers in comparison with the price cutting approach advocated by others. While significant reductions were made last year in government purchases, program costs and inventories, producers saw their prices strengthen. In September 1984 the average market value of manufacturing grade milk rose above the support level and stayed above for five straight months, before falling back to the support level in February. The decline, without question, is the industry's way of preparing for the price support reductions expected on April 1 and July 1 under current law and hedging against a return to the industry trends that prevailed before the Milk Diversion Program was implemented.


SPREAD BETWEEN MARKET & SUPPORT PRICE

US MANUFACTURING GRADE MILK

We well recognize the disinclination of Congress, in the face of opposition from the Administration and marketers in some regions, to extend the diversion program. We believe it is unfortunate.

But even more unfortunate is permitting the scheduled price support cuts to take place. These cuts will only aggravate the problem we all share an interest in solving. There is no reason for them.

Consumer prices for milk and dairy products are not high by any reasonable measure. In fact, dairy products are an exceptional value by most measures and dairy prices have increased more slowly than consumer prices generally.

About the only measure one can use to suggest U.S. milk prices are to high is the world price level, where government export subsidies and product dumping have created an artificially low price level well below milk production costs for the vast majority of the world's milk producers. The U.S. could not depend on other nation's for a stable supply of dairy products at current world price levels, because there would be not reason for other nation's to subsidize prices for the benefit of our consumers.

The notion that the government should withdraw entirely from its role in market stabilization so producers can go it alone in the "free" market ignores reality. I have served on the International Dairy Committee with leaders of producer groups from most free world nations and as a delegate to meetings of the International Federation of Agricultural Producers. There are, in fact, only a few nation's in the entire world that produce enough milk to meet their domestic needs. And all these nations that are self sufficient in dairy have substantially more government involvement in price and supply stabilization than does the United States. In fact, I am not aware of a single nation with a dairy industry of any substance that has less government involvement than we do in America.

When the 1949 Act was written and the dairy program in its current form was implemented, virtually all dairy farms were "family" farms. The simplest, most efficient means of stabilizing supplies and prices was by influencing market prices in general through purchases. There was no "targeting" of benefits because none were necessary... all producers were the target.

But the market stability created by the program, combined with tax codes and economies of scale, all encouraged dairy farmers to get larger. As larger farms took a larger share of the market, they also gained a larger share of the benefits of the program.

Thus it was not surprising that taxpayers and consumers, buffeted by high inflation, high unemployment and ultimately the recession of the early 1980s, reacted hostily to the swelling cost of the dairy program.

But the answer is targeting, not junking. A complete and total withdrawl of the government from its stabilization role, without dealing with the other factors (particularly the incentives in the tax code for investment of outside capital in agriculture) will speed concentration in the dairy industry and the demise of commercial family farms. We will end up with an industry of super farms and hobby farms.

The wires carried accounts last week of a new study of the dairy industry that reportedly projects the impact of various dairy price levels on the structure of the industry over the next few decades. While I haven't seen the report itself, the reported conclusion was that family size farms that predominate the industry today would be largely wiped out by either a significant price reduction or increase. They apparently would fare best under stable prices.

I don't know what analysis tools they used to draw this conclusion, but I tend to agree with it. The public will be best served by a policy that stabilizes prices and supplies. Consumers will pay in spades down the road for any short term price advantages they may realize if stabilization programs are junked wholesale.

We believe the nation needs a dairy stabilization program... but returning to the program written in 1949 with only minor adjustments to the formulas, as some suggest, is not the answer. That is a head in the sand approach. The new index being proposed is simply camouflage for a price support cut.

We need a dairy stabilization program that recognizes the changes in the dairy industry over the past 35 years. In our view, the dairy program of the future must facilitate the survival of viable, commercial size, family operated farms while tailoring the milk supply to commercial market requirements. The general market support approach doesn't do that and cannot.

The type of program we believe would be most appropriate is a voluntary supply management plan. It could be a paid diversion program or a deficiency payment program. They are, in fact, somewhat similar in their use of carrots and sticks to attract voluntary participants.

The key elements, irregardless of the method, are:

1. The program should be voluntary. Producers desiring price stability at a reasonable level, who are willing to adjust their production in line with national objectives, should have that opportunity. Others should be free to do as they wish, but in a commercial market with little or no federal intervention.

2. Payment limitations may be used to target benefits, but they should be realistic. Further, limits should apply to "net" benefits, giving credit to producers for their contributions to funding the program. For example, if the payment limitation is $50,000 and a producer has paid $5,000 in assessments to fund the program, his payment limit should be $55,000... $50,000 in benefits and a $5,000 refund of his contribution.

3. The program may be financed in part by producers themselves in partnership with the government.

We have not yet endorsed any specific plan for the dairy section of the 1985 Food and Agriculture Act. We are hopeful that in time a concensus may develop around a program that encompasses the principles we support. In the meantime, we would favor immediate action to prevent the two scheduled price support reductions and to renew and extend the Milk Diversion Program until a new long term program is developed and implemented.

Thank you.

NATIONAL
INDEPENDENT
DAIRY-FOODS
ASSOCIATION
SINCE 1957

321 D STREET, N.E., WASHINGTON, DC 20002, (202) 543-3838

TESTIMONY BY DONALD A. RANDALL
ON BEHALF OF
NATIONAL INDEPENDENT DAIRY-FOODS ASSOCIATION

BEFORE THE

HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
March 27, 1985

The National Independent Dairy-Foods Association is a national trade association of independent proprietary dairy processors, manufacturers and distributors of fluid milk and a complete variety of dairy food products. We address some of the current issues facing the dairy industry. More importantly, we try to focus on those future issues inherent in the 1985 proposed farm legislation which will be the law for most of this 1980 decade. NIDA supports the basic principles and some of the specific provisions of the Administration's bill and also the bill offered by Senator Helms. Each one is a partial remedy for nagging problems which hangover from the depression years of the 1930's. The market oriented provisions of this legislation should begin to weave the fabric of a new healthy agricultural society--a much stronger material to bind the small businesses producing our nation's food supplies into a real world industry with efficient economic freedom and progress. It will not be quick or easy.

The disastrous legislation of recent years haunts us, but we will not let it dictate our future. We are all familiar with multimillion dollar payments to agricorporate dairy producers who are using their diversion money to increase their herds and improve their production facilities for 1985 and thereafter. This windfall gave taxpayers a partial temporary respite, but solved nothing. The diversion program accounted for only 25 to 30 percent of the decrease in CCC purchases. Thousands of our farmers have not benefited from this scandalous 1983-1984 program--they have suffered the indignity of being taxed $.50 per hundredweight to pay other distant dairy farmers not to produce milk. Many of these large new dairy farmers had no valid business reason for increasing production of milk except for our government's misguided, over-indulgent support prices of the past seven or eight years. There must be no diversion programs, quotas, supply controls or supply management schemes.

We need to put business sense back into our government's dealings with agriculture, particularly the business of dairy farming. We have a growing economy, lowering inflation and stable employment, but we are told that we have a devastating depression in agriculture and in the dairy farming industry. If this is true, why is it so? Why have our terribly expensive farm programs failed to help our small family farmers?

One of the culprits we have identified is legislation developed by Congress in direct response to the urgings of the producer groups. We know of others: unrealistic expansion of farms and tools of production; high interest rates; lack of export opportunity; and most important, low farm products prices. Some of these culprits will be handled in the eventual course of domestic and foreign commerce and some have been handled, such as runaway interest and inflation.

Past failures to act responsibly about support prices for milk and dairy products cannot be repeated this year.

NIDA proposes a dairy support and price measure which doesn't go the extra mile of the Administration's bill. We do not propose to end the purchase program in support of dairy prices, but we advocate a balanced market with supply meeting demand. When this occurs in the future, there will be little or no CCC purchasing. We want flexibility for the Secretary to handle support prices in a responsible manner. It will limit CCC purchases. He will be directed to keep dairy support prices in the range of reasonableness. The disgraceful surpluses can not be continued.

We offer qualified support for the Administration's proposal. NIDA is proposing to allow a manageable surplus for a number of reasons:

1. We need to continue to assure our nation an adequate supply of milk for commercial and emergency needs, but without budget straining surpluses;
2. We need the lowest reasonable support price to assure farmers' milk prices do not fall catastrophically;
3. We need to encourage as many of our producers as possible to remain in the dairy business by an underpinning of their raw

product cost, while not encouraging them to over produce; and,

4. We need to assist in maintaining local production of milk and not to encourage the shift of production to large aggregate feed lot operations in distant areas.

Our proposal initially sets a range of total CCC expenditures between a minimum of $300,000,000 and a maximum of $800,000,000 to be accomplished by adjustable support prices to be set at the discretion of the Secretary; up to a maximum expenditure of $800 million in 1986; in a range of $300 to $600 million in 1987; and in a range of $300 million to $400 million in 1988. Thereafter, support prices for milk would be set by the Secretary at levels necessary to bring forth an adequate national supply of fluid milk, but in no event would the price level cause an annual rate of CCC purchases which exceed 2% of the three year moving average of total retail market sales of milk and its products. This orderly transition will move production and consumption into balance with a minimum of trauma for those dairy farmers who entered the business because Federal programs encouraged them to do so.

TOWARD A MARKET ORIENTED SYSTEM
A MORE EQUITABLE MARKETING ACT

In addition to the dairy support law changes, Congress must address some of the problems which have developed over the years in the Agricultural Marketing Agreement Act. (Agricultural Marketing Agreement Act (AMAA) of 1937, 7 USC 601, et seq.) From a historic viewpoint, the AMAA has served the nation satisfactorily. The act has been amended on several occasions during the past forty-seven years. However, it now needs a major overhaul predicated upon long-term equity and fairness. As you are preparing farm legislation this year to reach toward a true market oriented agriculture policy, particularly in the dairy industry, we urge you to be willing not only to examine the AMAA, but to amend it to harmonize with a market oriented support program. Congress must not create an imbalance or inequitable market situation!

We must face the reality that the AMAA was enacted during the depression years as emergency legislation. If we still have an emergency in the dairy industry today, we submit that the emergency, in part, may be caused by this legislation which was created to alleviate industry problems. Milk Marketing Orders and agreements authorized by AMAA are entrenched in our society today. Are they compatible with the goal of a market oriented industry in light of the structure of the dairy industry today? More properly stated the question is, can we have dairy markets directed by the indisputable forces of supply and demand while marketing orders regulate prices, supplies and shipments of milk? Congress must not place the Agricultural Marketing Agreement Act and the thousands of regulations issued under its authority off limits again this year. It will not be easy, but the enormity of the problem demands that Congress revise the entire system--not just price support programs. It is necessary to change the Act to make it more effective, fair and more compatible with our new market directed dairy industry. That is why we propose specific amendments to the AMAA. There are other changes that can and should be made, but we propose a start in this direction. Although we support the Administration's proposal for a study commission of the Milk Marketing Orders, it is not adequate to deal with the existing problems and those which will become critical during the next five years. From 1975 to 1985 the number of dairy processors and handlers declined from about 7,000 down to about 1,200 today. Unless some amendments are made to the AMAA to assure an equitable balance, by 1990 it will be too little and too late to help the industry.

NIDA's members are extremely concerned about the future of a market oriented dairy industry. Large interstate and super regional dairy cooperatives have immense market power. They have the power to impose over order premium prices for fluid milk and to influence market order provisions. Our smaller tax paying proprietary companies need to be assured by Congress that they will receive fair and equitable treatment under new laws and changed market conditions. They must not be victimized by imprudent laws and regulations.

I. Proposed AMAA Amendment

Our first proposal would amend the statement of purposes and public interest section of the AMAA. It corrects a basic deficiency in the Agricultural Marketing Agreement Act and should clear up considerable confusion. This amendment is compatible with the market oriented intent of proposed 1985 farm legislation.

Our proposed amendment clarifies the public interest, and thereby the consumer interest in agricultural marketing orders and agreements. The degree of public interest which the Secretary of Agriculture has been required to consider in approving and issuing hundreds of marketing orders or agreements, was thrown in doubt by the Supreme Court's decision in Block v. Community Nutrition Institute, et al, No. 83-458, (June 4, 1984).

In that case, the Court decided that consumers of dairy products had only an indirect and derivative interest in the regulation of handlers of milk under the Agricultural Marketing Act, and thereby have no standing to seek judicial review of the Milk Marketing Orders.

The purpose of this amendment is not to grant authority to any or all consumers, whether affected or not, to petition or intervene in 15A proceedings under the Act, or to cause regulatory impasse. The intention is to require the Secretary to make clear findings that any proposed order or amendment is in the public interest. He must justify the use of the extreme power granted under the Act that such use, specifically in each case, is beneficial to the consumers of the products regulated, as well as beneficial to the farmers who produce them.

It has been demonstrated many times that market orders which restrict production, prorate or allocate production of agricultural commodities may not be in the public interest. Provisions of these orders are prepared and largely determined by the managers of producer (cooperative) organizations, and are not necessarily in the best interests of individual producers. For example, independent dairy farmers are almost totally powerless to influence any of the hundreds of provisions which regulate the handling of their milk. Consumers are totally powerless to affect any of the Milk Marketing Orders which determine the prices they shall pay and the types of products they are offered. Mr. Chairman, consumers deserve a more definite statement of their interests.

II. Proposed AMAA Amendment

Our second proposed amendment to the AMAA would direct full disclosure to members of cooperatives under the Act, of the gross sales receipts for their milk and all amounts withheld, deducted or charged against their milk checks.

Although practices of disclosure vary with cooperative associations depending upon local laws and regulations and the degree of involvement of members, there is no uniform requirement for regularly informing members of how their withheld funds are being utilized. Each farmer should be aware of the manufacturing and processing costs being assessed by his cooperative. A cooperative member is entitled to know how much it is costing him to belong to a dairy cooperative. This is vitally important where producers are receiving less than the uniform Federal order price specified by the Act. Uniform prices to producers are established under Section 8c(5)(B) which provides for the fixing of "uniform" prices to be paid to all producers or associations of producers "irrespective of the uses made of such milk by the individual handler to whom it is delivered." However, under Section 8c(5)(F), producers are paid by their cooperatives

[illegible]

[illegible]

cooperative membership could have made the difference in management decisions to acquire questionable, and subsequently unneeded processing facilities, with the resultant pledging of their milk receipts. If member farmers had known how their money was being spent, they probably would not have allowed unwise processing investments.

Members should be continuously informed about the costs of marketing through a cooperative, so they can decide whether to renew their cooperative membership or become an independent producer.

III. Proposed AMAA Amendment

Our third proposed amendment to the AMAA would help to achieve equity in payments to producers of fluid milk. It also would help equalize competition between cooperative processors and proprietary handlers. We would propose that where minimum prices to producers are fixed by orders and where any cooperative association subject to an order competes with any handler, such cooperative association shall not pay less than the Federal order prices to its members for the sale of their milk or products. Payments shall be by cash and not in the form of promises to pay, or other evidence of indebtedness, or stock.

The purpose of market orders is to bring about orderly marketing for milk and other agricultural commodities. Milk Marketing Orders address these problems in the dairy industry by establishing administered minimum prices for both producers and handlers in defined geographic areas. The three basic elements of market orders are set forth in Sections 8c(5)(A)-(C) of the

AMAA: *uniform handler prices*, uniform producer prices and producer settlement funds.

"The very foundation of the Act is to provide uniform prices...subject only to specifically enumerated adjustments." *Dairylea Cooperative, Inc. vs. Butz*, 504 F2d 80, 87 (2 Cir. 1974). All major cases interpreting the legislative history of the AMAA make it clear that the backbone of the market order authority is uniformity of prices to be paid by handlers and received by producers, subject only to the enumerated adjustments. *Fairmount Foods Co. vs. Hardin*, 442 F2d 762, 766 (D.C. Cir. 1971); *Zuber vs. Allen*, 396 US 168 (1969).

Section 8c(5)(F) currently allows producers to be paid less than the uniform minimum prices by their cooperatives. Cooperatives receive uniform payments from handlers or the pool, and pay their producers according to contracts. This procedure does not conform to the basic purpose of the AMAA.

Our amendment proposal does not require uniformity of prices as received between cooperative members and nonmember producers within the same marketing order, but it should help to eliminate the inequity between competing cooperative handlers and non-cooperative handlers. This inequity has been a major factor in the decline in independent milk handlers from about 7,000 in the 1970's to only about 1,200 in 1984.

Uniform prices are essential to the handlers in the orders. *Non*cooperative handlers often compete at a disadvantage as they are paying the minimum uniform prices for the largest cost factor in their business--fluid milk--while competing against the processing plants of cooperatives who pay below federal order price for fluid milk for the same chain stores, convenience stores or other fluid milk accounts.

The Amendment would have a positive benefit of requiring more prudent investment of cooperative members' funds in plants and in their operation. These associations can still use equity contributions, dues and assessments. However, they must be obtained directly from the members, and not obtained by reducing members' prices to subsidize marginal processing plant operations.

It is estimated that most of the largest cooperatives with wholesale and retail sales have underpaid their members during the past several years. This is especially true for most of the large Eastern and Southeastern cooperatives.

IV. Proposed AMAA Amendment

Our fourth proposed amendment to the AMAA would make block voting by producer associations for their members on market orders and amendments optional with the Secretary of Agriculture. Additionally, it would require an adequate sample poll of producers.

Block voting distorts the democratic process written into the Acts by Congress, such as Capper-Volstead, which prescribed one vote per member, and the AMAA, which sets forth the votes needed to issue orders (8c(8)(A)&(B). The order process should not be left to block voting which allows cooperative managers to substitute their determinations of the questions. It disenfranchises members. It concentrates power in the hands of a few officers.

Block voting discriminates against independent farmers and independent handlers. In certain market areas, such as Number 2 for New York and New Jersey, approximately 50 percent of all producers are noncooperative members. Each one of them must vote individually on orders and amendments, and no handler may represent them at hearings and vote for them. Individual farmers, whether cooperative or noncooperative, are not consulted on order changes. Frequently, they have no knowledge of the proceedings, and usually cannot afford to travel to hearings and vote. They cannot afford market order hearing representation. Large cooperatives and their federations are represented and block vote for members.

In many of the Federal market orders today, a single cooperative will represent in excess of 50% of the producers, and often in excess of two-thirds. USDA will record votes required by the statute by a single phone call or letter to cooperative officers.

V. Proposed AMAA amendment

Our fifth proposed amendment to the AMAA would be added to the existing anti-barrier provision of Section 8c(5)(G) of the Act which prevents market orders from prohibiting or limiting the sale of milk or its products as between market order areas. This new amendment is needed to eliminate other barriers that have been erected during the past fifty years.

This broad amendment would have a far reaching effect on the regulations in market orders. It would make milk more marketable and probably change the entire order system. It could create an entirely new competitive market for milk. It could initially lower the cost of milk, particularly Class I milk. Class I milk is arbitrarily priced higher than manufacturing milk even though it is usually of the same quality. Less than 50% of the Nation's milk is used in Class I fluid products, and the remainder is sold at lower prices after being diverted to manufacturing plants. This amendment would bar cooperative federations from using pooling agreements or options or other schemes to prevent milk from moving at market prices between milk markets and other areas.

VI. Proposed Amendment

Finally, NIDA supports a long overdue amendment to the Capper-Volstead Act (7 USC 292).

The Capper-Volstead Act of 1922 is the most significant law enacted by Congress to benefit cooperative organizations. It fulfilled a need to give a partial exemption from antitrust enforcement to associations of farmers, growers, etc., to organize either as noncorporate or corporate organizations, and to function. It may be said that the entire modern cooperative portion of agriculture is based on the rights granted in this Act (7 USC 291-2).

In granting this immunity from prosecution, Congress intended to equalize the bargaining, marketing and processing positions of farmers with the positions of large interstate food processors. During the legislative discussions, the question of monopoly and market power abuse of these rights were considered. The majority eventually agreed that due to the independence of farmers and the diverse and fragmented industry, there was little to fear from the large types of powerful consolidations that had occurred in other businesses--absent antitrust enforcement.

Substantial market power and cooperative monopolies have grown in agriculture, particularly in fruits, vegetables and in dairy. Congress included Section 2 of the Act (7 USC 292) for the purpose of checking any abuses of market power by cooperatives or their use of monopoly power by action of the Secretary of Agriculture. Some investigations have been instigated by the Secretary on complaints from consumers and industry members, but the Secretary has never used his authority to hold hearings, issue orders and enforce them, or to find and end any undue price enhancement.

Pursuant to 7 USC 292, the Secretary, exclusively, may issue a complaint when he has reason to believe any association (or federation) monopolizes or restrains trade to the exent of undue price enhancement, hold hearings, issue a cease and desist order, and seek enforcement in a U.S. District Court. Our proposed amendment would give joint or concurrent jursidiction, or duty of investigations, hearings, orders and enforcement to the U.S. Attorney General.

The abuses of Capper-Volstead chartered cooperatives in the dairy industry and in the California-Arizona naval oranges and lemon industry are well documented by the large number of antitrust enforcement actions brought against all of the large cooperatives and their federations by the Justice Department, Federal Trade Commission and private litigants. Also, the National Commission for Review of Antitrust Laws and Procedures documented the unlawful uses of market power and monopoly in agriculture and recommended legislation. This amendment is vitally important as we move to a market oriented dairy industry.

This Amendment would not reduce any authority or immunity now held by cooperatives. It would not subject them to any new laws; would not interfere with their formation and operation; and would not prevent them from acquiring market power or from merging into monopolies. It would, however, introduce permissible enforcement by the U.S. Attorney General where prices were unduly enhanced. The Department of Justice would have no greater authority than the Secretary of Agriculture.

This Amendment is needed because the Secretary has neither the expertise or the resources to deal with antitrust issues. He is charged by Congress with promoting cooperatives in many other programs. The fifty year record shows that the Secretary does not have the willingness to examine anticompetitive and trade restraining practices of these giant corporate cooperatives. The Secretary recognizes his constituency to be farmers and their organizations. The U.S. Attorney General has no charge to favor one economic group over another. He has a broader constituency--the American public.

NIDA urges the committee to carefully study our proposals and to incorporate them into the 1985 farm legislation.

Thank you Mr. Chairman, I will be happy to answer any questions.

Respectfully submitted,
NATIONAL INDEPENDENT DAIRY-FOODS ASSN.
Donald A. Randall
Executive Vice President/
General Counsel

STATEMENT
OF THE
MILK INDUSTRY FOUNDATION
AND
INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

PRESENTED TO

THE

SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY

OF THE

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 27, 1985

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E. Linwood Tipton
Executive Vice
President

I am E. Linwood Tipton, Executive Vice President of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers, on whose behalf I am appearing today.

The Milk Industry Foundation (MIF) is the national trade association for dairy product processors--ranging in size from single plant operations to multi-plant corporations with a myriad of interests. Member companies represent over 80 percent of the domestic processing industry. MIF member companies number nearly 300, and are located in all 50 states and over 20 foreign countries. U.S. members operate over 1,000 plants, which process 85 percent of domestically consumed fluid milk and fluid milk products.

The International Association of Ice Cream Manufacturers (IAICM) is the trade association for manufacturers and distributors of ice cream and other frozen dessert products. IAICM's 320 members operate over 1,110 plants and distribution centers natonwide, and manufacture approximately 85 percent of the ice cream consumed in the U.S.

The members of both associations use about two-thirds of all the milk used in the U.S. to process the milk and ice cream products they produce.

It is a pleasure for me to appear before this Committee today to testify about the dairy provisions of the 1985 Farm Bill.

Milk Price Support Program

Milk processors and ice cream manufacturers are most interested in maintaining a dairy support price program which will assure reasonable returns to dairy farmers and stabilize milk production. In the absence of a milk price support program, we fear prices would fluctuate widely and production would be erratic. This would not be in the interest of dairy farmers, processors or consumers.

As processors, we are also most interested that support prices be set at reasonable levels—levels which do not force the price of milk above other competing products, unnecessarily, and which provide adequate supplies while avoiding burdensome surpluses.

We are concerned about the tremendous growth in government purchases of dairy products in recent years and the high level of uncommitted CCC-owned inventories. We believe that government dairy policy should be structured to keep the quantity of dairy products purchased by the CCC at minimal levels. The quantities of surplus dairy products purchased by the CCC should be controlled through mandatory adjustment of the milk price support when government acquisitions reach a specified level.

Surpluses should not be allowed to reach levels which result in government giveaway programs that displace regular commercial sales of dairy products. Conversely, if government purchases fall below a prescribed minimum deemed necessary as a reserve to meet domestic and foreign food aid commitments, a mechanism should be available to increase the price support level. In light of imminent technological developments in the dairy sector and changing economic conditions, the key to the success of any dairy program will be flexibility.

We oppose any program or even "stand-by authority" for a milk support program based on quotas, production bases, diversion payments, producer assessments, or similar programs. Adjustments to production and consumption should be made by adjusting the price support level.

Brief History of Dairy Program

Before discussing our ideas for a workable solution to the current dairy surplus problem, I thought it might be helpful to review and highlight the recent history of the dairy price support program.

I think that most analysts and observers would agree that the dairy program is one of the more complicated and least understood of the major farm programs. In principle, however, the program is a simple one. That is, the price of milk to producers is supported by the federal government at levels sufficient to assure an adequate supply of pure and wholesome milk. This is accomplished by the secretary of agriculture announcing prices for butter, powder, and cheese at which the CCC stands ready to purchase unlimited quantities of these three products. These CCC purchase prices are set at a level permitting manufacturers to pay dairy farmers the support price and cover their cost of manufacturing.

For most of the 36 years that it has been in existence, the dairy price support program has worked extremely well and at an acceptable cost to the government and the taxpayer. For the ten-year period FY 1970-79, net federal expenditures on the dairy program averaged $335 million and CCC purchases averaged 3.8 billion pounds, or about 3 percent of the average annual milk production during that period.

In recent years, however, the program has simply not worked as it was intended. For the most recent five year period, FY 1980-84, dairy program costs have averaged $1.9 billion and CCC purchases have averaged over 12 billion pounds or about 10 percent of production. Last fiscal year, FY 1984, the CCC purchased the equivalent of 10.4 billion pounds of surplus milk at a cost of $1.5 billion. This was a direct subsidy of $7,500 per commercial dairy farm. This, however, underestimates the total cost of the program, since there were also indirect costs involved to consumers who had to pay higher prices for dairy products. If the price support had been reduced by $1.50 per cwt. in December of 1983, which many analysts felt was the amount needed to bring production back in line with demand, instead of the 50 cents that actually took place, consumers would have saved an additional $1.4 billion on dairy product purchases. Thus, total direct and indirect costs of the program last fiscal year amounted to a $14,500 subsidy for each of the almost 200,000 commercial dairy farms in the country.

Looked at another way, these direct and indirect costs of the dairy program in FY 1984 were equivalent to each farm receiving an extra $2.12 per cwt. on all milk produced in FY 1984. This was equivalent to 18 cents per gallon of milk, 21 cents per pound of cheese, 23 cents per pound of butter, and 13 cents per pound of nonfat dry milk.

From my perspective, these developments beginning in late 1979 and early 1980 were entirely predictable and not at all unexpected. In testimony to the Congress in 1979, I pointed out that it made absolutely no sense to increase the price support at that time since the milk-feed price ratio had reached a near record 1.62 early in the year and was expected to remain very favorable for most of that year. A milk-feed price ratio of 1.3 or higher is generally considered as a favorable indicator for producing more milk. The following year, FY 1980, the combination of two price support increases and a continued favorable milk-feed price ratio resulted in government purchases exceeding 8 billion pounds for the first time since 1954 and CCC costs exceeding the $1 billion mark for the first time ever.

Since 1981 seven separate pieces of dairy legislation have been passed by the Congress in an attempt to come to grips with the dairy surplus problem. A variety of mechanisms including producer assessments, deductions and paid diversion programs have been tried, yet the CCC will still purchase more than nine billion pounds of milk this year at a cost of more than 1.7 billion dollars. Clearly, the program is not working as was originally intended.

The Compromise Bill

The Dairy and Tobacco Adjustment Act of 1983, commonly referred to as the "Compromise Dairy Bill", started in the right direction by reducing the price support by 50 cents, but delayed further cuts for 15 months. That bill reduced the price support by 50 cents on December 1, 1983, and authorized two additional cuts in the price support, a 50 cent cut on April 1, 1985, and another 50 cent cut on July 1, 1985, if the Secretary of Agriculture projects that CCC purchases will exceed 6 billion and 5 billion pounds, respectively, for the 12 months following those dates. Based on current U.S.D.A. estimates, those two price cuts should occur. Yet already there are efforts afoot to circumvent those price cuts. The April 1 adjustment will be a wash to producers since it coincides with the removal of the 50 cent assessment. The July 1 drop, however, will send a clear and correct signal to producers that production still must be reduced. This needs to happen if we really want to start solving the surplus problem.

The Compromise Bill complicated the situation and postponed resolving the problem by calling for a paid-milk diversion program that paid farmers to dump their milk or feed it to farm animals. The diversion program has been a particularly onerous part of the compromise package for milk processors and has largely been ineffective in reducing milk production. According to a recent U.S.D.A. news release "the drop in CCC purchases has resulted more from increased commercial use and increased farm use than from a drop in production." Our analysis supports the U.S.D.A. announcement.

Some proponents of the milk diversion program have made a tenuous link between last year's drop in CCC purchases and the milk diversion program.

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[illegible]

[illegible]

milk. Dairy farmers, processors and consumers can best respond to prices that are reflective of the commercial demand for those products.

We believe the long term solution to the dairy surplus problem can best be handled through the marketplace, where both producers and consumers can react to prices dictated by market supply and demand.

Our Position

We believe that new dairy legislation should be designed to do the following:

- Maintain an adequate supply of pure and wholesome milk to meet current and future needs.
- Bring a better balance between milk production and demand.
- Be market oriented.
- Maintain stability for producers and consumers.
- Provide for orderly market transition.
- Reduce government costs.
- Provide the flexibility needed for changing technology.

We have developed a simple, straightforward proposal that would accomplish all of these objectives over a four year period. The basic elements of the program would be as follows:

- The CCC would purchase between 2 and 4 billion pounds of milk on an annual basis to meet feeding and nutritional program needs.
- The price support for manufacturing grade milk would be set at $11.60 per hundredweight from October 1, 1985 through September 30, 1989.
- The Secretary of Agriculture would be required to reduce this price by not less than 50 cents, effective October 1, 1986, and at the beginning of each subsequent fiscal year, if CCC purchases exceed 4 billion pounds or $750 million, whichever is less, or to increase this price by not less than 50 cents if CCC purchases fall below 2 billion pounds milkfat equivalent and 300 million pounds of nonfat dry milk.
- The Secretary of Agriculture would have the discretionary authority to adjust the price one additional time during the year if purchases are anticipated to exceed 4 billion pounds or fall below 2 billion pounds.

Our proposal will reduce the cost of the federal dairy program to about one-third of the previous three year average, will bring about a better balance between milk production and demand, and will at the same time continue to assure an adequate supply of pure and wholesome milk to meet current and anticipated future demands.

Supply and Demand Situation

We expect milk production in FY 1985 to be down only marginally from last year's 137.4 billion pounds. Commercial sales of dairy products are expected to be up by about 1-1/2 percent from a year ago to 127.5 billion pounds. Given these changes in production and commercial use, we expect CCC purchases to be in the neighborhood of 9 billion pounds. The cost of these purchases will likely exceed $1.7 billion.

Our analysis indicates that even with a price support of $11.60 per cwt., CCC purchases next year (FY 1986) would be in the neighborhood of 7.5 billion pounds and CCC program costs would exceed $1.5 billion. This indicates that the price support for milk must be something lower than $11.60 to bring milk production in balance with demand. A price support of $11.60 will ultimately bring milk production down, but our analysis indicates that it would take four years at this price level to get CCC purchases below 4.0 billion pounds; and if there is any significant changes in productivity, which are very likely, CCC purchases would probably remain above 4 billion pounds even in 1989 or 1990.

Our projections of CCC purchases assume, too, that we will see continued increases in commercial sales of dairy products in response to a reduction in the real price support level for milk. Our estimates for the four year period show that commercial use would increase from 127.5 billion pounds in FY 1986 to almost 139 billion pounds in FY 1989. These estimates were based on an annual demand elasticity of .30 and a continuation of the most recent ten year period trend in commercial (+1.1% per year).

Significantly, our analysis does not take account of the likely introduction of technological developments that could dramatically increase milk productivity per cow. Bovine hormones, now in the experimental stage, are likely to be introduced commercially within the next four years. These hormones will increase productivity per cow by 20-40 percent in some herds within a very short period of time and at a modest cost. Embryo transplants, three times a day milkings and improved feeding techniques can also significantly increase productivity per cow. New dairy legislation must contain some flexibility to be able to account for these changes should they occur.

Market Oriented

Our proposal assures that necessary adjustments to milk production and consumption will be accomplished by adjusting the price support level to clearly understood rules over the next four years. As I noted earlier, during the past four years, seven separate dairy bills have been passed by the Senate with each providing some unique and novel approaches to solving the surplus problem. Trouble is, none of them have worked. Dairy farmers did not know what to expect next and have had to respond to a confusing variety of, and often conflicting, signals from the government. We all know how we got into the surplus problem we now face — price supports have simply been high relative to what the market can bear. It is time to adopt a simple straightforward program that we know will work.

Maintain Stability

We would propose to extend the $11.60 price support level with no adjustment (nor assessments, taxes or other gimmicks) for an additional twelve months, beginning October 1, 1985. This will result in the support price being held constant for fifteen consecutive months with no assessments, deductions or diversions to send confusing and conflicting signals to producers. This will give dairy farmers additional time and a clear signal to make production adjustments to reduce the level and cost of government dairy purchases.

Increased Commercial Sales

With no increase in the price support for milk in the past three years, the market has responded in the way it should be increased sales. Last year, commercial sales increased by 3.5 billion pounds, almost 3 percent, compared to a year earlier. Last year's surge in commercial sales is sound evidence that a lower support price means increased sales. That increase is a direct result of reduced and stable real milk prices.

It is significant to note that the retail price index for dairy products increased by only 1.6 percent per year since 1981, when the price support was last increased. For the five year period prior to that, when the milk support price was increased twice each year, the same retail price index increased by an average of 8.3 percent per year. For the past few years dairy products have been a good buy relative to other foods and last year we saw the first significant increase in sales in the past five years. it is clear that consumers will respond to price, so let's sell our way out of this problem, not buy our way out!

Cost Savings - Government and Consumers

Our proposal would over a period of several years reduce government dairy program costs to about $750 million per year. This is approximately the cost associated with purchasing, storing and handling 4 billion pounds of surplus milk on a fat equivalent basis. This would reduce the cost of the dairy price support program by about two-thirds from the aveage $2.1 billion cost of the program over the past three years and by more than half of last year's $1.5 billion cost.

To further reduce the cost of the dairy price support program we would propose that the Secretary of Agriculture be required to reduce the milk support price by not less than 50 cents per hundredweight on October 1, 1986, and at the beginning of each fiscal year through 1989, if net purchases by the Commodity Credit Corporation are projected by the Secretary to exceed 4 billion pounds milkfat equivalent or $750 million, whichever is less, during each fiscal year.

Minimum Reserves

To ensure that the Commodity Credit Corporation maintains sufficient reserves of dairy products to meet national food aid and nutrition goals, our proposal would require the Secretary to increase the price support by not less than 50 cents per hundredweight if CCC purchases are projected to fall below 2 billion pounds milkfat equivalent and 300 million pounds of nonfat dry milk. Government purchases in the 2 to 4 billion pound range will provide stability in the marketplace for producers and consumers and will allow the government to continue to meet domestic food aid and nutritional commitments.

Flexibility

When CCC purchases are in the 2 to 4 billion pound range, our proposal would give the Secretary of Agriculture discretionary authority to adjust the support price as necessary, following 120 days of an announcement to do so, in order to maintain CCC purchases within that range. This flexibility is needed to take account of anticipated technological breakthroughs that may increase dairy cow productivity by 20 to 40 percent. Bovine hormones, embryo transfers and improved feeding methods are expected to have significant and immediate impacts on milk production if introduced in the next few years. We have seen an average annual increase in milk per cow of only two percent over the past ten years and consumer demand has not kept up with that.

If productivity per cow increases by 20 percent over a short period of time without a corresponding decrease in cow numbers or a significant increase in commercial sales, we will once again find ourselves with mountains of dairy products with no commercial outlets. These developments should be factored into the price support level by giving the Secretary authority to make the necessary adjustments to the price support.

Thank you for the opportunity to appear before you today. I would be pleased to answer any questions you may have.

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TESTIMONY OF ELLEN HAAS
EXECUTIVE DIRECTOR
PUBLIC VOICE FOR FOOD AND HEALTH POLICY

BEFORE THE SUBCOMMITTEE ON LIVESTOCK
DAIRY, AND POULTRY

COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

March 27, 1985

A Consumer Persepctive on the Current Dairy Program

Thank you, Mr. Chairman. My name is Ellen Haas. I am the Executive Director of Public Voice for Food and Health Policy, a non-profit consumer research and advocacy organization working on food, nutrition and agricultural issues.

As members of this Subcommittee know, I and others at Public Voice have long maintained a strong interest in national dairy policy. The reason is quite simple: consumers have an enormous stake in U.S. dairy policy. They spend $44 billion on diary foods annually and depend on dairy products for protein, food energy and a broad range of other nutrients. More pounds of dairy products are consumed than either grain products or meats. Moreover, for the poor, who spend up to 40% or more of their income on food, reasonably priced dairy products are a matter of critical importance.

Mr. Chairman, achieving consensus on dairy policy unfortunately has often been more of a goal than a reality. However, this year practically everyone--producers and consumers, as well as budget balancers--agrees that the current dairy program is not working well.

One measure of its failure is the discontent expressed by farmers from across the nation. Another measure is the unprecedented surpluses being accumulated by the federal government at unprecedented cost to the American taxpayers. The extent of this surplus is suggested by the fact that of the $17.5 billion spent since 1950 by the Commodity Credit Corporation on dairy price support and donations, virtually half has been spent during the past five years.

The last five years' overproduction can be traced directly to the inability of the price support program to reduce milk production incentives when surpluses grew. Program changes since 1981 have had only temporary successes in dealing with a long-run problem. Our projections show that unless bad weather or unexpected changes in export markets push feed prices sharply higher, the industry is unlikely to balance production and use even if price supports are frozen at $11.60 per cwt for the coming four years. I am told that USDA projections and others agree.

Current Dairy Policy

U.S. dairy policy has been in a state of flux since the early 1970s. In 1973 and 1974, milk production declined severely in reponse to high feed costs and rapidly declining returns. Production did not return to the 1972 level until 1976. In response to that cost squeeze, Congress raised the minimum price support from 75 to 80 percent of parity, and required twice yearly adjustments, provisions that were continued until 1981. Producers responded with enormous increases in output, surpluses mounted, and government costs rose sharply.

Since 1980, the government has made repeated attempts to dampen production. In early 1981, legislation was passed to forego the last price support increase required by the 1977 Act. The 1981 Law effectively broke the link to parity and the automatic increases required by that index, although it did so by specifying minimum support prices that increased each year. Nevertheless, huge surpluses have persisted, and the law has been changed twice since 1981:

- The FY 1982 Budget Act eliminated the price support increase scheduled for October 1982, and authorized an assessment of up to $1.00 per cwt on all commercial sales.

- The December 1983 Dairy and Tobacco Adjustment Act established a voluntary supply control program that paid farmers to reduce sales. It authorized lower price supports, but also reduced the assessments on commercial sales. On July 1, 1985, assuming all the authorized reductions are made, the net price support level will be cut for the first time since late 1982.

The reason production continued to increase in spite of changes in the program is that milk production incentives continued to increase through early 1983--long after surplus production had become a matter of serious concern. Even thoug the markets were under pressure and milk prices were at the support level (and below) as early as late 1979 and 1980, the parity index increased supports and therefore market prices every six months. Producers received no convincing economic signal to moderate production until the price support increase scheduled for April 1, 1981 was cancelled, a step that was partly offset by falling feed prices, as were the initial producer assessments in 1982. Furthermore, the increases in incentives from 1977 onward were so persistent and reliable that only very severe negative shocks could be expected to change producers' expectations. These did not develop until feed costs increased in mid-1983 from the continuation of drought and the Payment-in-Kind (PIK) program.

Impact of the 1983 Program

In the third effort in three years to better balance production with consumption, the 1983 Dairy and Tobacco Adjustment Act authorized cash payments to farmers who contracted to market less milk between January 1, 1984 and March 31, 1985 than they did during a 1981 base period. In addition, the price support was reduced 50 cents, with authority for two other adjustments in 1985.

Producers who participated in the program were required to cut production between 5 and 30 percent, but were free to do so by reducing cow numbers or by changing rations and daily milking schedules. The cash payment was $10 per cwt reduction.

Participation in the program as low, about 38,000 farmers (20 percent of commercial dairy farms). Participants agreed to cut production 7.5 billion pounds (5.4 percent of 1983 production). Furthermore, producers that had reduced production for any reason were eligible for payment, so the programs' impact on marketing by participants likely will be three to four percent of 1983 production.

For the industy, the impact of the program together with the increase in production costs in late 1983 and 1984 led to both the largest decreases in cow numbers since 1973, and a temporary halt in growth in production per cow. For 1983/84, production averaged 1.6 percent below the year before. CCC net removals declined to 9.8 billion pounds, and program cost to a net of $1.5 billion (including both diversion payment costs and returns from producer assessments).

Nevertheless, the 1983 Act does not appear to have improved long-term prospects for balanced supply and use. The reductions in cow numbers mean the herd is heavily culled, and now relatively young with superior capacity. Future production levels will depend heavily on the level of economic incentives--milk prices and feed costs.

The Outlook Under Current Policy

The long-term trend in dairy cow numbers is down, necessarily so because productivty per cow is increasing much faster than milk consumption. When that trend reversed in 1980 and the reversal persisted through 1983, surplus production was assured.

The net increase during the 1981-83 period was 365,000 cows, 2.9 percent. In 1984, the trend reversed once again. And, while the 1983 program likely diminished production, the sharply higher feed costs caused by the PIK program and drought in 1983 and 1984 may have had more to do with the herd reductions than the 1983 program simply because the feed cost impacts were so much more widely spread. Returns per cwt of milk in 1984 dropped 43 percent below the 1981 level, and for many producers, returns were negative for the first time in years. The result was heavy culling, a reduction in concentrates fed per pound of milk and a production cut of 3.0 percent.

The 1984 production decline is unlikely to be equalled in 1985 or in the near future in the absence of new price or cost shocks since the factors that caused it seem unlikely to be repeated. More important, the economic returns to milk production are likely to increase in 1985 and remain relatively steady in the intermediate future.

The main factor affecting the cost of milk production is feed costs, and corn is the principal feed grain. Current corn surpluses are so large and exports markets so weak that there is little likelihood of feed price cost pressure through the next two years. Relatively strong economic incentives to produce milk can be expected for the next several years. Even if support prices are reduced in April and again in July 1985 to $11.60 per cwt, the lower feed costs and the end of the assessment program will increase net returns by about 15 percent. Of course, if supports are not reduced in April, the incentive to produce surplus milk will be vastly greater.

While net returns are likely to average below levels of the early 1980s over the next several years, they will provide relatively strong incentives to greatly slow the decline in cow numbers of 1984. As output increases in 1985, returns per cow could return to very near the 1983 level, and decline only gradually through the following four years.

The 1984 downturn in cow numbers slowed dramatically by year's end. The average reduction during the first three months was over 91,000 cows, but only 5,000 for the last three months of the year, a level that appears to be continuing in 1985.

It now appears that the cow reductions in 1984 were largely culling, rather than long-term herd reductions. And, while it is unlikely that cow numbers will be rebuilt in 1985, the decline will slow to a total of 200,000 cows or so over the five years 1984/85 to 1988/89.

The foregoing economic trends indicate that a continuation of current policy implies a continuation of current problems. The outlook for low feed costs and only slow increases in overall production costs implies little diminution of production incentives. With consumption growing slightly faster than population, the industry faces the requirement to reduce herds at least as fast as the growth in output per cow.

The Importance of More Equitable Dairy Policies

Mr. Chairman, I understand that it is not the purpose of this hearing to examine alternatives policies. You are concerned today with the current program, where it has taken us, and what might be expected if it were continued. In that context, I want to make two comments and a concluding observation.

First, the continuation of current policy, even with supports lowered twice this year to $11.60 per cwt and frozen there for the coming four years, is not likely to balance supply and consumption. The current prospects for abundant feed supplies imply that unless costs increase more than expected, surpluses will persist. The temporary 1983 program to help reduce capital investment in the industry led to lower cow numbers, but only a temporary reduction in production capacity.

Second, in order to insure adequate supplies of wholesome milk, and to limit pressures on producers from productivity growth, the government has played a large role in dairy marketing for more than 50 years. Adequate supplies of wholesome milk have been provided, and have come to be taken for granted. In the process, the government has developed a policy of controlling milk supplies. It has constructed a complex set of programs that limit imports, separate regional markets, and support milk prices. This intervention alters the economic and geographic nature of the industry. It insures incentives to produce in regions that would otherwise import milk. And, it has encouraged the production of dairy substitutes and diminished markets.

Through the process of continued market intervention, milk consumption has been reduced and prices held above levels they would have reached had competition required production and market adjustments. The programs have operated at vast government expense, especially since 1979.

While the basic concern regarding adequate and wholesome milk supplies has not changed since the programs began, recent experience indicates these objectives alone do not sufficiently emphasize consumers' interests. Four additional criteria are needed. They would require that effective dairy policies:

- achieve a balance between production and consumption, and be sufficiently flexible to respond to changing circumstances by adjusting price support levels in order to facilitate such a balance. Not only would such programs reduce market intervention, but they would operate at minimal government cost.

- rely on simple, direct programs that permit market forces to balance and adjust production and consumption. Programs that intervene continually to restrict production, marketing, or assess producers are confusing and costly to administer and may slow rather than facilitate rules to prevent competition between markets or divert products from one use to another tend to reduce efficiency, misallocate resources, and raise consumer costs.

- protect both producers and consumers by limiting the price and production instability inherent in milk production. Policy changes must avoid unnecessary disruptions and sharp changes in consumer costs so that adjustments toward a balance are incremental rather than severe shifts likely to cause dislocation and overreaction.

- insure that wholesale and retail price changes reflect competition and the industry's rapid productivity growth.

My final comment is that I believe that a much more equitable policy could be developed through small shifts in policy, using essentially the same programs we have today. Two small but important changes are required. First, the Secretary must be required to forecast milk production and consumption frequently and reduce supports whenever large surpluses are projected. Second, the Secretary must have considerable discretion to determine price supports in the absense of large surpluses, but the law must contain clear direction to be used in setting support levels.

- The program's purpose must be limited to alleviating large price swings. Thus, the intent would be to provide price supports generally slightly below market clearing levels so as to minimize the degree of CCC market intervention. The Secretary would be directed to use recent market price levels, trends in production, consumption, and cost, and other relevant economic factors in determining price support levels.

- The program would be designed to acquire small amounts of stocks in most years for use in ongoing feeding programs. However, in the event the price support program does not acquire adequate stocks, they are to be purchased through normal procurement channels rather than through increases in price supports for that purpose.

We belive such a policy would be simple, effective, and low cost, and that it would provide crucial protections for both producers and consumers.

Thank you very much for the opportunity to appear today. I will be glad to answer any questions you may have.

Remarks by

Robert F. Anderson
Executive Director
National Cheese Institute
and
American Butter Institute

My name is Robert F. Anderson. I am the Executive Director of the National Cheese Institute (NCI) and the American Butter Institute (ABI). On behalf of the members of both institutes, I am please to be invited to present the views of the processors of over half the milk produced in this country.

Both the National Cheese Institute, founded in 1927, and the American Butter Institute, founded in 1908, are non-profit corporations whose members are broadly representative of the cheese and butter industries. Their members include independent and cooperative manufacturers as well as assemblers, packagers, wholesalers, distributors and marketers of these products. ABI and NCI members represent over 80 percent of the butter and cheese marketed in the United States.

Our members' primary purpose is to supply products to the commercial trade. However, we also have the responsibility, under the dairy price support program, to provide the processing, packaging and sales link between the farmer and the Commodity Credit Corporation. We assume this task willingly because experience has shown the importance of this link to market stability in the dairy industry. The farmer, the processor and the consumer benefit from a stable dairy industry.

Dairying is in many ways unique. This uniqueness is understood by national governments of countries with a substantial dairy industry. In these countries the nutritional benefits of milk and dairy products are recognized as an essential part of the diet. Milk production is afforded special consideration.

Each of these governments have dairy policies that are intended, among several objectives, to promote stability in the dairy industry. We are today discussing the role our government should take.

ABI and NCI have just conducted lengthy and profound reviews of various dairy policy proposals. As a result we wish to go on record as favoring a dairy policy which will utilize a commodity purchase program to bring about a supply and demand market within a five year period.

We favor this policy because it is a positive, workable program. We do not agree that a target price policy designed for field crops can work for dairying. I suppose every industry believes they are different and in need of special attention. Hearings such as this one will help sort out and establish the facts. We submit the following factors are unique to the dairy industry and not other agricultural industries and are important enough to deserve that special legislative consideration.

> Specialized Inputs - The production of milk requires specialized inputs -- milk cows, buildings, machinery, and skilled management. All of these have little or no value in other agricultural uses.
>
> Rate of Output - Choice of rate of output is severely limited for milk production. Downward adjustments can be made rapidly by culling. Whereas, increases in output

are limited to available replacement heifers, a biological lag of two to three years.

Entry or Exit - Entering or leaving milk production involves major shifts in capital structure. Shifts among crops on a given farm require relatively little capital.

Harvesting - Harvesting of a field crop is a single time thing, yielding a product which may be stored on the farm in anticipation of the best price. In contrast, milk is "harvested" two or three times a day, every day of the year. Milk, being perishable, must move off the farm in a rapid and orderly manner. No other product must move as rapidly or as regularly. The market-clearing value of a unit of output varies among producing units, i.e., by location and product characteristics. The value on any given day is a function of the supply available that day and the demand. The flow of milk, not the unit of milk, must be priced.

Marketing - Processor assembly of milk is costly and must be scheduled well in advance to prevent quality deterioration or loss of saleable product.

These are major unique factors which distinguish dairying from other agricultural industries. The underlying condition that makes the dairy industry in the United States work is stability. Stability has been the goal of government policy through the "product purchase" provision of the dairy support program. We do not believe a system of "target pricing" would promote dairy stability; actually it would likely promote instability by a recurrence of distress milk, i.e., milk with no ready purchaser.

I cannot emphasize too strongly the devastating impact on the market when milk seeks its own market-clearing level. It only takes a few loads of "distress" milk to send shock waves through the market. Milk cannot be set aside to wait for the market to open up; it must be sold. At other times the shortage of milk can cause severe disruptions and distortions in the flow of milk. The product purchase program we recommend provides that measure of stability which permits the flow of milk to adjust to market needs in an orderly manner.

Without stability we could again witness the chaotic marketing conditions I saw as a youth in Iowa. Farmers' milk shipments halted by other farmers and by threat and actual bloody battles with clubs, finally resulting in loads of milk being dumped on the ground. This terrible scene was repeated in other states and Congress took action to bring back stability to the dairy industry. At first this action took the form of milk pricing, but during World War II a system of product purchasing to support prices was also developed. It was from these activities that the dairy support provision of the Agricultural Act of 1948 was formed into law.

Since 1949 the dairy support program has for the most part successfully accomplished its goal. Granted, during the current situation and in 1953 and again in 1962-65 the government removals have been excessive. These aberrations were more a matter of the program lacking flexibility to react in a responsive way to adjustments in the general economy than as a result of the policy of product purchasing.

Through all its 35 years the program has assured the consumer an adequate supply of dairy products at a reasonable price and the dairy farmer was assured a market. The undergirding principle of "product purchases' remains today and for the future the major factor needed to maintain the stability vital to the dairy industry.

It is also apparent from the following chart the support level works better if it is a "floor" rather than a "ceiling" to the market. Events also indicate the original percent of parity equivalent index is no longer relevant.

COMPARISON OF CCC ACTIVITY DURING THE TWO MOST RECENT 5 YEAR PERIODS

Crop Year April 1- March 31	Support Level		Total Production Bil. lbs.	USDA net removals (milk equivalent)	% Total Production Removal
	% parity equivalent	$/cwt. nat'l. av.			
1974/75	81 89	6.57 7.24	115.6	2.4	2.1
1975/76	79 84	7.24 7.71	115.4	0.8	0.7
Oct. 1- Sept. 30 1976/77	81 83	8.26 9.00	122.2	4.0	3.4
1977/78	82 84	9.00 9.43	121.7	3.2	2.6
1978/79	80 87	9.87 10.76	122.3	1.1	0.9

Crop Year Oct. 1- Sept. 30	Support Level		Total Production Bil. lbs.	USDA net removals (milk equivalent)	% Total Production Removal
	% parity equivalent	$/cwt. nat'l. av.			
1979/80	80 86	11.49 12.36	127.3	8.2	6.4
1980/81	80	13.10	132.0	12.7	9.6
1981/82	75 72.9	13.49 13.10	135.6	13.8	10.2
1982/83	69.1	13.10	139.0	16.6	11.9
1983/84	64.0 62.4	13.10 12.60	137.4	10.4	7.5

Based on ASCS Commodity Fact Sheet, December 1984

The key to a workable product purchase program is to keep support prices at a level which is slightly below market-clearing prices. This will assure a measure of stability to the producer and consumer without overloading government warehouses.

Under any circumstances our domestic prices will probably be above levels at which dairy products especially cheese and butter are available for export at subsidized prices in other dairy producing countries. Under such conditions import controls are necessary to prevent flooding the U.S. market with imports. The U.S. is the largest cheese producer and one of the largest importers of cheese in the world and should not be intimidated into making unjustified changes in our present dairy import policies. World trade in dairy products is not large, less than 10 percent of the total world production. Much of this is surplus, pushed onto the world market and sold through subsidies. This is not a market the U.S. needs to develop.

Dairy price adjustments for the near future are expected to be reductions, using some type of triggering level probably based on net market removals. Therefore the cheese industry, which must store its products for several months before it is ready for the market, recommends that adjustments be made once a year on April 1. This is in time with the seasonal increase in production when an adjustment in the market is expected. Further, the announcement should be made in early March so the commercial market can react and make adjustments to minimize inventory losses.

The cheese industry also urges CCC to increase the price at which government owned cheese is sold back to the trade from 110 to 115% of the purchase price. This would encourage commercial long-hold storage. In addition to this action to encourage commercial storage of cheese the government should also state that any reduction in a sell-back price in effect when a support level decrease is announced will not be lowered for 3 months. This protects the commercial inventory of stored cheese from being devalued by lower priced government stored cheese.

In a different vein, we believe any plan that could place 200,000 dairy farmers on a list to get supplemental deficiency payments under a target pricing system would not get government out of dairying. Furthermore, the target price level would be a bone of contention, fought over and argued about within these walls and elsewhere with nobody a winner.

In conclusion we recommend that any revisions in the dairy program should retain the "product purchases" provision as the undergirding principle that will maintain the stability so essential to dairying. This feature should be coupled with a procedure that will carefully, efficiently and effectively bring about a more balanced supply and demand market in which the government is not the primary market or price leader. The purpose of the program should be to have government as the silent, non-involved partner.

HAROLD C. STEINKE
VICE PRESIDENT

BORDEN CONSUMER PRODUCTS DIVISION

BORDEN, INC.

Borden is now in its 128th year in the U.S. dairy industry. We operate 58 dairy plants located in 19 states processing a full range of dairy products, including fluid milks, ice cream, cheeses, condensed milk, powders and butter. We therefore have great interest in our government's milk price support program as the price of milk is the most significant ingredient cost in the products we manufacture and sell.

I EXPORTS

Borden does not share the dream of many in agriculture that increased exports is the road back to prosperity. International markets for dairy products are thoroughly saturated. We cannot enter them commercially without expensive taxpayer's assistance and without upsetting established trade patterns of our foreign friends and allies.

II PERISHABILITY

Milk is produced and marketed daily. It is not storable like wheat, feedgrains, tobacco, cotton and other crops. So any price support program for milk must necessarily make use of a storable product made from milk in order to run smoothly. Dairy farmers cannot withhold milk from the market until a better price comes along. Neither can buyers of milk wait through a shortage until supplies are more plentiful. Perishable products must be packaged and sold when fresh.

III PURCHASE PROGRAM

The 1949 program which has removed surplus milk in the form of butter powder and cheese has worked just fine except on those rare occasions, most notably the past three years, when flexible pricing was unavailable, and the dairy industry got out of sync with the rest of U.S. agriculture. We suggest this committee recommend the continuation of a purchase program, but including a flexible approach to pricing. Allow the support price to move up or down depending upon the amount of surplus milk being produced. With such a flexible policy, the U.S. Department of Agriculture's regular ongoing programs could easily utilize the small amount of surplus dairy products that would be drawn off the market each year to ensure that farm prices did not collapse.

IV SELF-FINANCING

We support the concept of a producer financed milk support program. Price adjustments for farm milk made through the levy or withdrawal of temporary assessments has allowed producers to help finance the milk program during the past two years even though this "milk tax" was much maligned at the outset.

V OTHER OPTIONS

The simple approach to a dairy program involving the purchase of storable dairy products and self financing outlined in III and IV above would get the desired results very easily at reasonable cost to the government, producers and consumers. We have considered many other proposals, but look upon them with disfavor:

1. Target prices and deficiency payments. This is a subsidy to consumers which consumers neither want nor need. How could we possibly justify denying general subsidies to farmers and transferring them to consumers?

   Placing all of America's 200,000 dairy farmers on the government payroll to receive supplemental milk checks is not "getting the government out of agriculture".

   Advanced payments, as proposed, are not appropriate. Dairying, unlike crops, does not have the front end cost of seed, fertilizer, fuel, herbicides, etc., long before harvest. Milk is produced and sold daily.

2. Downward milk price adjustments should not be scheduled for October 1 or January 1 of any year. Downward milk price adjustments should occur before the flush production months, not after when milk supplies begin to shorten and prices tend to rise.

3. Price support formulas based on parity have a long history of unsuccess. "Parity" is no longer a relevant number.

4. "Dairy parity" or "cost production" formulas to determine support prices are not fair because they fail to consider the general economy and could very well perpetuate inefficiencies.

5. Farm base plans, quotas and multiple pricing schemes are undesirable because they become a part of the capital structure of farming. These so-called "non-price supply adjusters" are simply government farm controls which block progress. There is no reason why a manufacturer of a growth product should not be allowed to encourage his milk patrons to provide more milk as needs grow. Otherwise, he is faced with hauling milk long distances or perhaps even an investment in another plant solely for the purpose of locating where there are quotas of milk unneeded for other purposes.

We know from long experience that to grow and prosper each separate activity in the dairy industry chain from farmer to consumer must be fairly treated by government programs. While we believe that milk because of its perishability deserves to be appropriately regulated, we do not endorse any program which perpetuates inefficiency or fails to reward those who improve productivity.

Borden is proud to be in an industry whose increases in productivity and efficiency have so greatly benefitted society in general.

Executive Offices

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WISCONSIN CHEESE MAKERS ASSOCIATION

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STATEMENT
OF THE
WISCONSIN CHEESE MAKERS ASSOCIATION
TO
THE LIVESTOCK, DAIRY, AND POULTRY SUBCOMMITTEE
OF
THE HOUSE AGRICULTURE COMMITTEE

Wednesday, March 27th, 1985

The Wisconsin Cheese Makers Association is a trade association representing 170 manufacturers of cheese and butter in Wisconsin and eleven other dairy states. My name is James E. Tillison, Executive Director of the Association.

The WCMA appreciates being given this opportunity to express to the members of this subcommittee the concerns of a key segment of the dairy industry about the possible dairy provisions of the 1985 Farm Bill.

The cheese industry not only provides the most rapidly expanding large market potential for the dairy industry, but also provides the mechanism by which dairy prices and the market are stabilized.

Stabilization is a word that is preferable to and more accurate than support when referring to the purpose of dairy legislation. Yes, past legislation has supported the price to a certain extent that farmers are paid for their milk. This legislation has also accomplished two other important tasks; protected consumers from shortages of dairy products and stabilized the cost of those products to consumers.

Past legislation has accomplished these functions by assuring manufacturers of cheddar cheese, butter, and powder a place to sell products when the marketplace could not absorb all the milk farmers produced at a minimum price. For example, the government stabilization price for cheddar cheese is currently 7.00 cents per pound higher then what the cheese commodity market is willing to pay. Therefore, sales to the government are increasing dramatically.

Plants are now selling to the government because, one, their normal commercial market has stopped purchasing cheese, or, two, the higher government price has reached a point over the market price where the hassle of selling to the government is worth the trouble.

Because these plants selling to the government are competing for producer milk with plants unable to sell to the CCC, all plants are forced to pay a competitive price and thus producer prices are maintained reasonably close to the stabilization price. This is simplistically how a support or price stabilization program works.

The objective of dairy stabilization legislation in the 1985 Farm Bill should be to reduce government costs and stabilize the market.

The plain simple fact is that the milk production cycle and the milk product demand cycle are not synchronus. For January through June of 1984 milk marketings totalled about 69.6 billion pounds while commercial utilization totalled 61.7 billion pounds. July through December is a different matter. Milk marketings totalled 65.9 billion pounds while commercial utilization reached 64.5 billion pounds. Looking at September through November, production was 32.4 billion pounds while utilization was 32.2 billion pounds.

Annually there was a surplus. Milk marketings by farmers exceeded demand by 9.3 billion pounds. However, a closer look clearly shows that during peak demand, there was balance. Talking with WCMA members during the fall of 1984, in fact, indicated that there was not enough milk.

This would indicate that some surplus is inevitable. The alternative is shortages and much higher consumer prices.

The WCMA would like to offer some points for this subcommittee and Congress to consider in determining what the dairy provisions of the 1985 Farm Bill should contain.

1. The key to stabilization is the processor. Therefore, any type of legislation must provide a mechanism for manufacturers and processors to balance their milk supplies with demand.

   The processor, whether he bottles milk or makes cheese, is the main factor in making the farmer pay price and stabilizing the market. If he does not have some way to handle winter and spring surplus milk supply and the farmer is forced to reduce production, there will not be adequate supplies to satisfy summer and fall demand.

2. Do not pass legislation that has set dates and amounts when and by how much the program will be adjusted.

   Much of the disruption the industry has seen in the last few years has been caused by the threat of government price adjustments occuring at a specific time.

   Product is moving to the government right now, not just because of the seasonal surplus, but also because the possible April 1st and July 1st 50 cent price cuts have changed the normal buying patterns in the marketplace. No buyer wants inventory when the price drops.

3. Look closely at some sort of temporary action regarding dairy imports to help bring the situation into balance.

Nearly 3 billion pounds milk equivalent of dairy imports enter this country every year. These do contribute indirectly to the surplus problems.

Much of the 3 billion milk equivalent pounds is in the form of products that are produced in this country. They, too, should bear some of the burden of reaching the objective of new legislation.

4. The FDA and USDA, (and OMB) should be encouraged to act on regulations proposed for the clear labeling of products containing imitation cheese.

Via memo, the Food, Drug, and Cosmetic Act has been circumvented regarding its provisions for labeling imitation products where artificial cheese is concerned.

A survey conducted for the WCMA and the NMPF clearly shows that consumers do not realize imitation cheese is being used in food products and they want this information.

Clear labeling will allow the consumer to make an informed buying decision, and probably do nearly as much as limiting casein imports in reducing the impact of imitation products on the surplus situation.

5. The Federal Milk Marketing Orders should not escape the deliberations of the dairy provisions of the 1985 Farm Bill.

Most of the milk in this country is passes through the Federal Order system from a price standpoint. Adjustments in the order program will alleviate some of the problems with the government dairy program.

SUMMARY

The cost of dairy stabilization, just like the cost of other government programs cannot escape the primary concern of the government and the nation which is reducing government expenditures and the deficit.

The WCMA believes that the dairy industry can work together to develop a program that will meet both the need to reduce government cost and still maintain the stability such a program will provide for farmers, processors, and most importantly, the consumer.

The industry realizes that only by working together to develop a reasonable program will legislation be passed that will serve the dairy industry and consumers well for the long term.

Respectfully submitted by
WISCONSIN CHEESE MAKERS ASSOCIATION

JE Tillison
James E. Tillison
Executive Director

NATIONAL ASSOCIATION OF MARGARINE MANUFACTURERS

Statement by S.F. Riepma, President
Before the
Subcommittee on Livestock, Dairy and Poultry
of the Committee on Agriculture
of the U.S. House of Representatives

March 27, 1985

Thank you for this opportunity to present our Association's views on dairy price support policy. You may well ask why an association of margarine manufacturers has views on dairy price supports. The answer is simply this: where dairy supports cause the government to accumulate vast amounts of butter, and that butter is given away to schools and individuals, those recipients of free butter reduce or eliminate their purchases of reasonably priced, low-cholesterol margarine.

This Association is a nonprofit national organization representing the makers of most of the margarine products consumed in the United States. Margarine is the major table spread with a per capita consumption of about 10.5 pounds and a major market for soybean and other edible oils. Our membership includes firms producing dairy products, as well as margarine.

That a fundamental adjustment of the federal dairy price regulating system is overdue is widely recognized. We have given the subject careful consideration.

We urge your Committee to act to bring dairy products production into balance with market requirements by --

(1) Retaining the present law until its expiration date, September 30, including the two authorized deductions April 1 and July 1.

(2) Longer term, establishing a milk support price system that will avoid, as much as possible, further acquisitions of dairy products by the government. Such a system might include a lower price support level and continued provision for its adjustment according to Department of Agriculture forecasts of surplus acquisition volume.

(3) Making more effective the restriction in the donation law, the Temporary Emergency Food Assistance Act, Sec. 203(c), against displacement of normal commercial sales by donation of surplus commodities.

We strongly urge your Committee to help enact a dairy price policy that will closely target the purpose of supports -- to assure an adequate supply of milk products, not to accumulate surpluses. Excessive government acquisitions and the exceedingly high costs to taxpayers should not be permitted to continue.

One particular aspect is of direct interest to us. Faced with hundreds of millions of pounds of unsalable butter in government surplus, Congress approved their being given to emergency food relief. That certainly is a worthy effort but in does nothing to solve the basic structural problem and in fact by displacing butter and cheese sales only adds to government stocks.

As for margarine, it is not price supported and does not have (nor do we want) a refuge in government warehouses. The injury done to margarine makers and distributors and the producers of its ingredient oils, chiefly soybean oil, is substantial.

We have caused a study to be made, a summary of which is attached. It finds the butter giveaway has cost margarine makers during 1983 and 1984 some 270 million pounds in sales. The program commenced earlier and is going on this year and perhaps next. Soybean farmers have lost an estimated 200 million pounds of market. I estimate the dollar losses, respectively, 1982-4, to be on the order of $120 million and $50 million.

Congress inserted into the donation law a proviso (Sec. 203(c)) requiring the Secretary of agriculture to assure himself that displacement of normal commercial sales not take place. That has been ignored.

The donation program, a direct result of out of line milk price support, is a classic case of one industry's gift from Congress working injury on others, creating an unnecessary burden on taxpayers and providing no visible benefit to consumers.

IMPACT OF SURPLUS BUTTER GIVE-AWAY ON MARGARINE

Summary of Major Findings of a Study Conducted
For the
National Association of Margarine Manufacturers

- The butter distribution program is having an adverse impact upon the margarine industry.

  -Individuals who are given more butter than they normally consume, quit purchasing margarine as well as butter.

  -For every 10 pounds of butter distributed, margarine sales declined by 7.7 pounds; 1983-84.

  -Displacement of margarine sales is 5 times as large as displacement of butter sales.

  -Most of the margarine displacement is concentrated in private label sales.

  -Although margarine prices rose somewhat during 1983 and 1984, due to higher soybean oil prices, the major factor causing reduced margarine sales was the butter distribution program.

- The program adversely impacts on the soybean and other oilseed producers whose edible food oils are basic margarine ingredients.

  -Based on displacement analysis, approximately 200 million pounds of soybean oil were lost in 1983-84.

- When distributed over all private label production, 20% additional excess capacity was created by the butter distribution program.

  -Private label manufacturers reduced employment 15-20% as a result of the distribution program.

  -It is entirely possible that the butter distribution program will force one or more margarine manufacturers out of business.

- Dairy policies must be adopted that attack the root of the dairy surplus problem.

  -Either production must be overtly controlled or the price support level must be lower than it has been, and must be adjusted downward when CCC stocks and/or purchases rise.

  -The margarine industry has a direct interest in a dairy policy that will not generate surplus butter conditions.

Statement by

Richard T. O'Connell, President

Chocolate Manufacturers Association of the U.S.A.

Mr. Chairman, Members of the Committee, I am Richard O'Connell, President of the Chocolate Manufacturers Association of the U.S.A. (CMA). CMA represents fifteen manufacturers of chocolate and chocolate products. These products include baking chocolate, chocolate confections, chocolate syrups and cocoa for drinking purposes, and chocolate-flavored milk. Our members also manufacture chocolate and cocoa ingredients used in ice cream, bakery goods, cereals, biscuit and cracker products.

The chocolate industry uses about $430,000,000 worth of milk annually, principally in the manufacture of milk chocolate. Milk chocolate constitutes about 90 percent of total chocolate confectionery sales. About 20 percent of a chocolate bar is milk.

Although we are discussing dairy price supports today, the dairy program is symptomatic of the problems in all the agriculture price support programs.

Mr. Chairman, throughout the last fifty years government programs have intervened almost constantly in markets for agricultural products. Through price support loans and target prices, and through direct purchases of commodities, producers have been given incentives to maintain or increase production even when market needs were declining. Not only have the results been huge government costs, but consumer prices far higher than necessary.

Since the early 1970s, growth of agricultural export markets has dominated our thinking, and provided the basis for policies which continue incentives to maintain or increase production. The declines in exports experienced since 1981 were seen as temporary, with growth expected year after year. However, the resumption of world economic growth has not rekindled U.S. export markets because our dollar is too strong and our prices too high - held high in many cases by inflexible price support programs. Nineteen eighty five likely will see another major decline in export revenues, now almost $10 billion below the 1981 peak.

Along with a decline in exports has come a tremendous increase in the costs of the commodity programs. The 1981 Farm Bill was the most expensive Farm Bill in history by a wide margin.

It is clear that the farm programs of the past are in need of fundamental changes.

The dairy program is a good example. The principal purposes of the dairy program are to insure an adequate supply of wholesome milk and to provide reasonable returns to the dairy farmer.

An adequate supply of wholesome milk is as important today as it was 50 years ago. However, the programs have gone far beyond that need, and have worked primarily to help protect producers from the necessary economic adjustments resulting from the substantial increases in productivity accompanied by only modest increases in demand.

In 1955, the average U.S. dairy cow produced 5,841 pounds of milk. In 1984, the average was 12,532 pounds, a 115 percent increase. During the same 29 years, commercial use of dairy products increased from 104 billion pounds to 125 billion, just over 20 percent. The rapid productivity growth and slow increases in consumption have meant enormous economic pressures.

The programs have attempted to reduce and alleviate those pressures, a goal everyone can understand. But no matter how worthy the goal, it can only succeed within an economic environment that fosters and promotes change. Rather than alleviate economic pressures as they facilitated adjustment, the programs have delayed necessary adjustments, caused enormous resource misallocations, and cost consumers and the government billions of dollars.

Since the 1930s, the government's continual presence in the dairy program has had three results. First, the programs have become enormously complicated, by far the most complex in agriculture. Not only are the programs difficult to understand, but they minimize international and regional trade and have major impacts on producers, consumers, and on resource use.

Second, they have changed the geographic and economic nature of the industry. Not only is milk now produced where it would otherwise be imported, but producers are signaled to expand production even when surpluses are mounting. They have encouraged the development of dairy substitutes such as margarine and artificial cheese and diminished dairy markets.

Third, the dairy industry has not passed new production efficiencies on to consumers. For an industry which claims to support a dairy program beneficial to all those affected by it -- producers, consumers, users, and taxpayers -- the reasons for not passing along cost savings are not supportable. We would submit the only reason such economic policies are possible is that the government's commitment to purchase unlimited quantities of milk products have masked the production efficiencies.

We compliment the dairy industry on their efficiencies, particularly on output per cow, but the fact that these efficiencies are overwhelming the price support program indicates the program adjusts too slowly to the production realities of the dairy program. Therefore, more flexibility is needed, along with swifter adjustments to production changes, and a possible recognition that perhaps not every dairy farmer can produce as much milk as he likes.

Recent surpluses and costs are unprecedented. Since 1950, the Commodity Credit Corporation (CCC) has spent $17.5 billion on dairy price supports, with almost half of the 34-year total during the past five years.

The pressure for change in these programs is undeniable. The last five year's overproduction can be linked directly to the inability of the current program to change supports -- production incentives -- as surpluses mounted. The Congress attempted many ways to avoid a direct confrontation on that issue since the problem became apparent in 1979. We urge that any new legislation take steps to insure that the program be changed so as to no longer provide incentives for large surpluses.

The latest facts and figures on milk surpluses are familiar to everyone. Milk production in FY 1984 was 136.8 billion pounds, 1.6 percent below year earlier. In FY 1985, production is forecast to be about 136.5 billion pounds, little changed from last year's level.

USDA net removals under the milk price support program totaled 9.8 billion pounds during FY 1984, down nearly half from FY 1983. Government costs decreased from nearly $2.6 billion in FY 1983 to $1.5 billion in FY 1984.

But the reasons for the reduction in government purchases are the most interesting aspect of these statistics. Earlier in the year, many groups said that lower government purchases were entirely due to the paid diversion program, which went into effect after the passage of the Dairy Stabilization Act of 1983.

Late last fall reports surfaced suggesting that much of the reduction in government purchases was caused by an increase in commercial use of dairy products. In fact, 1984 production was down 2.2 billion pounds, while consumption was 3.2 billion pounds higher. Noncommercial farm use was also higher. Of the 5.4 billion pound reduction in net removals that came from changes in production and commercial use, 60 percent was due to the consumption increase. Some of that increase came from a more robust economy, but more moderate retail prices made possible by reduced price supports certainly helped.

Dairy production responds to economic incentives. While the temporary diversion program reduced cow numbers, it also increased the capacity of the remaining herd by introducing higher quality replacements. The outlook for low feed costs this year means strong incentives to produce milk.

The diversion program must end on March 31, 1985. It has not served its purpose and there is no reason to extend it. CMA was opposed to paying dairy farmers not to produce milk in 1984 and we continue to oppose the concept. The 1983 Act does not appear to have improved longer-term prospects for balanced supply and use. The herd is not heavily culled and relatively young, with superior production capacity. If milk production incentives--price support levels--are not reduced, surplus production and enormous program costs can be expected to continue.

Mr. Chairman, the 1984 production figures indicate that the Secretary of Agriculture will have every reasons to institute the provisions of the 1983 Dairy Act and reduce price supports on April 1 and July 1, as provided by the law, since the outlook for CCC purchases in FY 1985 remains well over 5 billion pounds. This will result in an $11.60/cwt price support.

CMA is conducting an analysis of the dairy program and various policy options. We believe that even with supports at $11.60/cwt, CCC purchases will continue to be extremely large, well in excess of the 7 1/2 billion pound level for most of the coming four-year period.

While our dairy program analysis is not complete, we have studied the possible consequences of three proposals: 1) continuation of the present dairy program assuming the price support will be $11.60/cwt after July 1, 2) the Administration's dairy proposal, and 3) the dairy program submitted by Senator Helms. In addition, we have looked at a no dairy program scenario beginning in FY 1986.

While no one has proposed an immediate end to the program, we feel such a scenario gives a clearer view of the long-term consequences of the Administration's proposal.

Mr. Chairman, I won't go into detail here regarding our appraisal of these alternatives. However, I do want to mention three major conclusions and offer a few comments on the Helms bill, which we feel has some possibilities.

First, a continuation of current policy even with price support levels frozen for four years at $11.60/cwt is likely to mean a continuation of current problems--largely costly surpluses. Low feed prices likely will encourage continuing strong production incentives in most regions. Productivity increases will outpace consumption and CCC net removals will exceed 10 billion pounds through the FY 1987-89 period. Costs will again exceed $2 billion annually.

My second conclusion is that the Administration proposal includes the risk of quite unstable prices. In addition, the direct payments program could be quite costly if the payments are not strictly limited.

The Administration has proposed changes to be made in two stages. In FY 1986 and FY 1987, the milk price support would be reduced in two 50 cent increments if production surpluses are expected, a situation that seems quite likely.

Beginning in FY 1988, a direct payment program would be substituted for the current price support program, and government price support purchases would end. Target prices would be established, with payments based on the difference between the national average price for all milk and the target price.

A very significant feature of the Administration's proposal is the direct payment limitation. A declining schedule of limits is proposed, $20,000 per person in FY 1986, $15,000 in FY 1987, and $10,000 in FY 1988 and thereafter. However, the limit would apply to total payments made under all commodity titles of the bill. As a result, a producer who is eligible for direct payments under the feed grain or other programs in FY 1988 when the dairy direct payment progam began would be limited to a total of $10,000 under all programs.

This policy would result in much slower production increases than would a continuation of current policy, and could achieve a near balance between production and consumption by the program's end, about FY 1989. CCC net removals would be 10.2 billion pounds in FY 1986 but decrease to zero as the purchase program is ended in FY 1988. Substantial direct payments would be made in both FY 1988 and FY 1989, even though target prices would be lowered sharply.

Our primary concern about this program is its potential for highly unstable prices, probably by FY 1990 and thereafter. In order to gauge such a likelihood, a "no program" scenario, beginning in FY 1986, allows us a better look at changes the Administration's dairy provisions would bring to the industry in 1990 or thereafter.

Because the price support program would end while production was still at a surplus level, prices would fall sharply. Heavy culling would cut milk production by nearly 6 billion pounds during the first three years of the program. The low prices and increasing consumption would strengthen markets so that government stocks could be sold. However, the tight supplies during FY 1988 and FY 1989 could increase prices and consumer costs dramatically. It is this potential price swing that concerns us. We believe the industry might cut back too fast and too far, and that the resulting shortages would be damaging.

Finally, Mr. Chairman, we support the basic goal of S. 616. Under the Helms' bill, the price support for FY 1986 would be $11.60/cwt. In following years, the Secretary would set milk price support levels as necessary to stabilize government purchases between 2 and 4 billion pounds annually. We are in favor of a program which limits government purchases.

To establish price support levels, the Secretary would project milk production and consumption before each year begins. If CCC purchases are expected to be above 10 billion pounds, price supports must be cut by $1.00; by 75 cents if purchases above 7.5 billion pounds are expected; and by 50 cents if purchases are likely to be above 6 billion pounds.

The Secretary could raise price supports if the projection indicates that would be necessary to insure an adequate supply of milk.

Mr. Chairman, we believe S. 616 would achieve a close balance between milk supply and use in the later years of the proposal. By gradually reducing supports, it would avoid incentives to overproduce, but would also avoid price instability. However, we have some problems with the first two years of the program.

Because the price support remains at $11.60/cwt for FY 1986, government costs will remain high as net removals increase. Under the Helms bill, we predict a government cost of $1.9 billion in FY 1986 with CCC purchases of 10.38 billion pounds.

Since purchases will be 8.2 billion pounds in FY 1987, the price support would be reduced only 75¢/cwt. when a $1.00/cwt is needed.

In general, S. 616 adjusts dairy price supports about one year behind the need. We believe the price support should be reduced at least $.50/cwt. in April of 1986 with another $.50 decrease in October. It is important to make the necessary reductions early and steadily in small increments.

We have two other concerns about the Helms' proposal. Basically, we believe formulas work only if they are very simple, and perhaps the Helms' formula could be simplified. If the Secretary were directed to reduce the support by $1.00/cwt when surpluses are projected to exceed 5 billion pounds, the direction to USDA to avoid large surpluses would be even clearer. If they had discretion to manage the program as necessary to hold surpluses between 2 to 4 billion pounds, the Department's authority would be less limited than under S. 616.

In addition, Mr. Chairman, we believe the Secretary should be required to examine the regional implications of price support changes in each of his annual projections. The industry is very different from region to region. Some of the recent problems have come from different regional responses and failures to respond. A more comprehensive, regional analysis each year would, we believe, improve the accuracy and usefulness of these forward looks.

One final comment on another proposal, Mr. Chairman. It has been suggested by some that a two-tier pricing system be used similar to the peanut program. Milk produced for the export market would be supported at a lower price than that produced for the domestic market.

The problem with this proposal is that, as in the case of peanuts, the domestic price is kept much higher than necessary, while foreign users benefit from the subsidized lower export price.

As manufacturers with heavy international competition, a lower price for the export market has a real impact on us. A two-tier system would mean that foreign manufacturers could buy the same quality U.S. milk at a much cheaper price, use it as an ingredient in their chocolate and then export the finished product to the United States at a lower price than our manufacturers can sell it in the United States -- simply because of the lower-priced American ingredients available to them.

Mr. Chairman, in my testimony I have reviewed a number of proposed changes in the dairy program -- some rather simple, some more complex. CMA believes simplicity is the key to an effective dairy program.

The dairy program has been considered by Congress seven times in the last four years. All kinds of proposals have been attempted. But the one simple proposal which has never been adopted is the easiest to implement and the most economically rational. And that is, simply lower the price support. A lower price will decrease production, decrease government purchases and costs, and decrease the retail price of the product.

The elimination of excessive surpluses and somewhat lower retail prices will balance the interest of the producer, the consumer, the taxpayer, and the user. What more could anyone want from a dairy program?

Thank you.

Testimony of

Norma R. O'Leary, President
Connecticut Farm Bureau Association

Before The
Livestock, Dairy and Poultry Subcommittee

March 27, 1985

Mr. Chairman and members of the committee, my name is Norma O'Leary and I live in Thompson, Connecticut. I would like to thank you for this opportunity to speak to you. In addition, I would like to thank Congresswoman Nancy Johnson for arranging this opportunity for me.

Mr. Chairman, I am a dairy farmer. My husband and I own and operate a dairy farm which has 220 tillable acres with 120 head of milking cattle and 125 head of young stock. Our 35 year old dairy business annually produces 237,000 gallons of milk.

I'd like to tell you a little about Connecticut so you can put this information into perspective. Connecticut has 3.1 million people with 3 million acres of which 500,000 acres is still farmland. O'Leary Farm is one of the 563 dairy farms left in Connecticut. However, Connecticut is the second largest producer of milk in New England producing over 632 million pounds of milk annually.

Mr. Chairman, I believe that New England farms such as O'Leary Farm are a very important part of American agriculture. We are fortunate to live in close proximity to large population centers which offer consumer markets for our products and stability to our land prices. New England weather and climatic conditions are well suited to the dairy industry. My husband and I plan to stay in farming and we hope that there will be those who wish to continue our dairy operation. In Connecticut, we do not have the opportunity of switching back and forth from grain production to dairy production, as some of our counterparts in the Midwest do.

I recently did a survey of dairy farmers in my town and what has happened to them in the past. Thirty years ago, there were 28 dairy farms in town, today there are just five left. These remaining farms need a stable market and an economic environment that is supportive of agriculture.

On our farm, as with any business, we are making decisions daily that affect its long-term operation. One major item that goes unnoticed into our decisions, is the federal milk marketing order and dairy price support structures. These structures have allowed us to plan for the future without the fear that there may not be a market for our milk from one day to the next, or that the price of the milk we produce may fluctuate wildly as milk markets change.

I believe it is imperative for the long-term survival of our family farm that the Federal Milk Marketing Order and Dairy Price Support System be maintained to assure consumers of a continuous supply of quality milk. To do away with this program that has served us so well for more than thirty-five years at a minimal cost to the taxpayer, would be to throw the baby out with the bath water. I also believe that we must make necessary adjustments in the current program to keep down its cost to taxpayers such as myself.

As the state president of the 2,800 member Connecticut Farm Bureau Association and as a member of the voting delegate body of the American Farm Bureau I have been involved in countless hours of discussion over what government dairy policy should be. I believe that you are familiar with the specifics of what our policy is, but I'd like to bring out two points:

1) We favor a system where the price support level would be automatically adjusted according to the amount of net dairy products purchased by the federal government.

2) We support the use of a moving average of the previous three years' all milk price for determining the support price.

Mr. Chairman, New England agriculture has proven that it can compete with alternative uses of land and with other businesses. I believe that our solution to the problem of surplus dairy products is a sound one and one that deserves your support. This means we must preserve the structure of the federal milk marketing orders and the dairy price support program which have served us so well. Again, I would like to thank you for this opportunity to speak before the committee and I will be glad to answer any questions that you may have.

- end -

REMARKS BY

KENNETH B. ANDERSEN

COMMISSIONER OF AGRICULTURE

STATE OF CONNECTICUT

Chairman Coehlo, honorable members of the Livestock, Dairy, and Poultry Subcommittee, my name is Kenneth Andersen, I reside at Perrin Road, Woodstock, Connecticut. I am Commissioner of Agriculture for the State of Connecticut.

Dairy farming is our leading farm commodity in Connecticut and accounts for the greatest use of our remaining prime and important farm lands.

Dairying uses approximately 53,000 acres of corn silage and feed and 26,000 acres for hay of the approximate half million acres of total farmland.

Connecticut, our 550 remaining family dairy operations and 19 milk processing plants produce approximately half the fluid milk needs for our state's three million consumers and generate about $200 million to our state's business economy annually.

Of critical importance to us is that dairying maintains Connecticut's vital farming infrastructure. This provides virtually all our commodity groups with services such as tractor franchises, equipment and machinery dealers, feed mills, credit agencies, etc.

Since dairy farming is the underpinning of our state's total agriculture, it is with real urgency and concern that I ask your consideration and support for

- Retention of a national dairy support program with essential modifications.
- Adoption of the program recommended by the National Association of State Departments of Agriculture, our national commissioners group.

This plan establishes that

- The basic support price mover should be dairy specific.
- The price support program should be market oriented and should not become a principal market for dairy products.
- The price support program should recognize changes in dairy productivity.
- Price should be the main factor to influence milk production and the supply of dairy products made available. Governmental programs establishing (1) national volume controls using quotas or bases, (2) diversion programs, or (3) assessments against milk production for program costs should be implemented only when absolutely necessary.

- The Secretary of Agriculture should be allowed some discretion to adjust the price support program to changing economic conditions.
- Dairy Import Regulations should be continued consistent with Section 22, Agricultural Adjustment Act, to mitigate the impact on the price support program.
- Continuation of a National Dairy Promotional program with provisions for producer referendum.
- Barriers to international dairy trade should be examined by the Congress and U. S. Trade Representative and viewed as an element influencing domestic dairy policy.

I believe this program will

- Guide the industry to desired market orientation.
- Mop up the present eight percent national dairy surplus.
- Bring dairy supplies in line with demand.

But it will do so in a manner which will limit the injury to the income of our dairy families in Connecticut and elsewhere.

Furthermore, the proposal aims at two very necessary and desirable elements to a sensible, comprehensive national dairy program: stability and flexibility.

A refined index of dairy specific parity will gain long-term stability in production volume and dairy prices paid to farmers.

This will avoid wide and erratic fluctuations on suport prices and dairy output and thus provide producers with a reliable business climate in which to invest and plan their operations.

Granting the Secretary discretionary authority to adjust support prices according to the level of government purchases will offer very prompt and gentle response to actual market faces.

Such a system then could permit subtle and orderly refinements in support price to then vie closely with market clearing prices and thus establish the safety net to dairy income.

Transition to Market Oriented Plan

Ratcheting the support price to yet lower increments beyond those cuts which are already scheduled on April 1 and July 1 could have a very devastating effect on northeast dairying and the future of our state's agriclture.

I would, therefore, suggest enacting an interim policy of freezing the support at no lower than $11.60 cwt. until the Commodity Credit Corporation's purchase of dairy stocks falls below five billion pounds of milk equivalent.

I would urge that this action not be mandated but undertaken only after careful analysis of dairy production status following the effects of the July 1 cut in the support price.

Once the five billion pound purchase level is achieved, the provisions that I have cited should then be implemented

- Establish the support price based on the dairy specific parity index.
- Institute the supply demand adjuster to the support price to further assure market clearing prices.

It gives me some distress to suggest an $11.60 interim floor in the support price because I know that some Connecticut producers -- our younger members who are as heavily financed as others carrying troublesome debt loads -- will find it extraordinarily challenging to ride out this period of depressed income.

Through zealous administration of our state farm policies -- regulatory programs, technical assistance, special tax provisions, and farmland preservation efforts -- we will be doing everything possible to guide and assess Connecticut agriculture through this difficult period.

It is my hope that Connecticut dairymen can achieve the degree of profitability so as to actually increase their productive capacity to consumers in their region.

I believe the proposal I have outlined will succeed at this objective. I look forward to that day when healthy market demand -- rather and government purchases -- is the price leader for dairy products and that day when Connecticut dairy families may enjoy more-fully the benefits of true economic recovery.

Thank you.

PRESENTED BY:

Mr. James Phillips
National Pork Producers Council

Mr. Chairman and Members of the Subcommittee:

We appreciate this opportunity to share with the Subcommittee our positions on issues for the 1985 Farm Bill and dairy legislation.

The National Pork Producers Council (NPPC) is the largest commodity organization in the nation with an identified membership, representing 315,000 farm families.

One of the major external factors affecting pork production profitability is the policy of the federal government as it impacts upon a producer's cost of doing business and a producer's ability to effectively market products. It is only natural then that one of the key objectives for 1985, given high priority and articulated by NPPC's Government Relations Policy Development Group is to "develop guidelines and actively participate in farm policy debate."

We want to focus this Subcommittee's attention upon the economic hardships being currently suffered by the family farm system and upon the importance of maintaining that system for a strong and vibrant democracy.

Our policy recommendations focus on the needs of the 315,000 producers who continue to maintain hog operations in the face of increased interest rates, unfair subsidized foreign competition, governmental advise on consumer eating habits, and regulation of food safety that is often harmful to product marketing.

We want our producers, who are increasingly involved in a technologically-advanced and capital intensive process, to obtain adequate return for their substantial investment of time, energy, and dollars. That is the only way, there will continue to be enough pork producers who can assure America what it expects of its farmers: an abundant and safe supply of reasonably priced food.

Mr. Chairman, your Subcommittee, and the full House Agriculture Committee, will be deliberating and deciding the specifics of food and agriculture policy for the country. This will occur in the process of enacting a new Farm Bill, which has traditionally been the centerpiece of such policy.

The NPPC has a direct economic stake in such policy development. We have always believed and continue to believe that, despite 50 years of farm bills that have injected the federal government into the farm marketplace as its chief regulator, farmers, and especially pork producers, are likely to be more cost-effective, more productive, more competitive and ultimately, more profitable when they are left alone without artificial price floors or artificial production controls affecting their input and inhibiting their activities.

Unfortunately, in recent years, we have witnessed numerous efforts by other farm organizations, often successful, to devise and take advantage of governmental programs structured in such a way that they favor some segments of agriculture at the expense of the economic interests of pork producers.

NPPC does not enter the food and agriculture policy arena with the intent of promoting new or revised commodity programs that would place the government directly on the side of enhancing the income of pork producers. We have not done this for fifty years. We do not propose to begin to do so today.

Many individual hog farmers may wish to participate in advocating specific commodity programs in connection with their production of other crops, such as corn or soybeans (or, occasionally, tobacco, peanuts, or cotton) that may account for a significant portion of their gross farm income. But the NPPC, despite the fact that many of our members produce more than one commodity (usually commodities that are heavily influenced by targeted programs), is not an advocate for increased government intervention or regulation. We are more concerned about minimizing the adverse impact of the government on our industry and about fostering the unfettered, interplay of supply and demand as the factors that determine profit and loss.

What we seek is fair play and equal treatment. We do not want the government to unreasonably raise our costs of doing business, whether it be in the form of interest rates at a level exaggerated by virtue of the government's fiscal policies, or in the form of charges for feed or energy that are unnecessarily inflated by federal limitations upon production or taxation. We do not want the government to welcome competitive pork production from foreign countries whose exports to us are subsidized by foreign governments without adequately enforcing the fair trade laws now in effect or to place us at a competitive disadvantage by encouraging the unnatural and excessive marketing of domestic red meat that will depress the prices we might otherwise secure.

NPPC does not want the government to favor producers of any one commodity if the result will harm producers of other commodities. The federal government, above all, should do no harm to any sector of productive agriculture, or, if that is not feasible, should minimize the negative impact of its programs on any one sector.

The government that governs best on behalf of pork producers and their profitability is one that governs least -- and, above all, spends less. Our current monetary-fiscal policy characterized by immense deficits and attendant high interest rates, directly hurts pork producers. We pay more than we should in interest rates to finance our land, facilities, and operations. That aggravates our cash flow problems, pressures many producers to liquidate part of their herds, and reduces our prospects for obtaining revenues in excess of our expenses. The same high interest rates help boost the value of the dollar and undermine our competitive ability to export wheat, corn, and soybeans, resulting in disappointing commodity prices and creating a climate favorable to limitations upon production. The dollar's value also functions to attract producers from foreign countries to invade our domestic markets. We endorse efforts to reduce those deficits substantially by reducing government spending.

While NPPC supports the most free market possible, we recognize it is unrealistic to assume existing commodity programs, particularly in the dairy sector, will vanish overnight, however, NPPC proposes that these programs be phased out over a reasonable period of time. We realize groups that favor modifying rather than eliminating the existing mix of loans, target prices, and acreage diversion programs have exhibited considerable clout. They wish to maintain these programs essentially intact, while modifying certain details. While we are skeptical about the beneficial impact of the prevailing policies on producers, we want to support those transition changes that will gradually move present programs in the direction closest to the competitive marketplace.

Agriculture must have sufficient time to adjust and adapt to the world economy in which it finds itself. Thus, timing becomes the most critical factor for our fellow producers, many of whom have become financially dependent on some of the present federal programs.

There is another vital element that must be addressed simultaneously. Our government must also face up to the reality of the world marketplace, and begin insisting that its trading partners recognize that free trade is not just a one-way proposition with red, white and blue markings on it.

It is with the premise that the federal government will become more aggressive in equalizing trade policies with other nations, that NPPC makes its farm policy recommendations.

Loan Rates - NPPC supports the setting of loan rates at levels that will operate (1) to stabilize commodity prices and either avert entirely or dampen the cyclical price swings that deter investment and undermine producer confidence and (2) allow prices for commodities to be set by the workings of supply and demand rather than with reference to the loan rates, thereby avoiding the establishment of artificially high prices, the attendant loss of export markets to foreign competitors, and the stimulation of excessive production, and (3) are both flexible and enduring over the long-run, rather than merely an ad hoc reaction to temporary conditions that must be revamped every year. To this end, we would endorse decreasing the current level of loan subsidization and replacing it with a program of loan rates that fluctuate and are adjusted in accordance with but fall distinctly below the average of recent years' markets, without any artificial floor that might cause the oan rate to approach or exceed the market price.

NPPC opposes any effort to create a two-tiered system that would allow commodities intended for export to be priced at market-clearing levels, while providing support for commodities for domestic consumption at a different and higher level. That is precisely the kind of program that would enhance the interest of some producer groups at the expense not only of other producers, but also of American consumers.

Target Prices - We would hope that eventually there would no longer be any need to retain programs to prop up producer income. If, however, that need continues to receive sufficient political support, the price supports established should float up or down with the loan rates rather than, as in the recent past, being fixed (on the basis of poor price forecasting) at some artificial figure unrelated to market prices. Deficiency payments made in connection with diversion or set-aside programs should not reward double-cropping the same acres (including using set-aside acreage to graze livestock).

Production Controls - NPPC does not encourage the imposition of any production controls that would significantly increase governmental outlays for agricultural programs. In particular, there should be no new programs exchanging payments for non-production of commodities that might result in increasing the supply of commodities that compete with pork.

Reserve - We support the termination of the existing farmer-owned grain reserves for corn on a gradual phased basis, designed to time its release into the market in such a way as to limit adverse price impact.

NPPC supports the concept of a farmer-owned reserve for wheat that would operate to provide for emergency overseas food needs rather than to bolster market prices.

We oppose the creation of any government-owned commodity reserves.

Dairy - The dairy industry is an important agriculture sector in every state. Milk is produced on 300,000 farms, about two-thirds of those commercial dairy farms. Dairy products worth $18.8 billion were sold in FY 1983, 14 percent of cash farm sales.

Federal dairy policy establishes milk price support levels which are achieved through purchases of cheese, butter, and nonfat dry milk; through a nation-wide system of market orders; and, through quotas on imported cheese. It is one of the most complex in the agricultural sector. But, the industry continues to face pressure for economic adjustment. The domestic market grows only slowly while productivity advances rapidly. Since

1970, milk output per cow has increased 30 percent in contrast to only a 13 percent growth in commercial use. Legislatively established price support levels have led to very large Commodity Credit Corporation (CCC) purchases of butter, cheese, and nonfat milk and high government costs.

For many years, the milk price support level was tied directly to parity. The 1977 Farm Act raised the minimum support level from 75 to 80 percent of parity, and it was held at that level until 1981. The 1981 Act reduced the minimum support to 75 percent of parity and gave the Agriculture Secretary flexibility for lower support when production was in surplus, but included a schedule of annual minimums.

However, surpluses and program costs have remained high. As a result, dairy provisions of the 1981 Act have been superseded twice. The FY 1982 Budget Act allowed the Secretary to forego the price support increases required in the 1981 Act and permitted a deduction of up to $1 per hundredweight (cwt) on all commercial sales. In November 1983, a 15 month voluntary program paid producers to cut production, reduced price supports for all producers by $1 per cwt, and continued a $0.50 per cwt. deduction on commercial sales.

The program, in combination with lower price supports and sharply higher feed costs in 1984 (a result of Payment-in-Kind and drought in 1983), has led to heavy culling (3.2 million cows to slaughter last year), fewer cows, less milk per cow, and declining surpluses. At the same time, commercial use has been rising more rapidly than it has for several years, and net CCC purchases have been lower ($1.6 billion last year).

While CCC purchases have frequently been large, exceeding four billion pounds per year in 19 of the 34 years the program has been in operation, the extent of intervention in the dairy market in recent years is unprecedented. In 1953/54, CCC bought 11.3 billion pounds (at a cost of $500 million), the greatest amount until 1981. Since then, purchases have averaged 12.3 billion pounds and the government inventory has grown. The CCC, since 1950 has spent a total of $17.5 billion on dairy supports and donations. Costs over the last five years have accounted for 48 percent of the 34 year total.

The federal dairy program affects American consumers and livestock producers in several ways. Dairy price supports have held prices above market clearing levels and have reduced consumption. The market order regulations have limited regional product flows, as well as restricted the use of some products. While precise estimates are impossible, conservative estimates place the total annual cost to the American consumer of the milk program at $2 billion.

NPPC believes that the free market can achieve economies of production better than federal programs. We do not want to be placed at a competitive disadvantage by dairy producers whose very real problems depress the prices pork producers might otherwise receive for their product.

Pork producers encourage self-help programs which lead to systematic reductions of dairy herds, provided that pork producers are not placed at a competitive disadvantage by encouraging the unnatural and excessive marketing of domestic red meat. Depressing red meat prices below what pork producers might otherwise obtain or requiring taxpayers to subsidize dairy programs over the long term should not be the legislated policy of our federal government.

The Dairy and Tobacco Adjustment Act of 1983 should be preserved through September 30, 1985. Under the terms of this law, on April 1, 1985 -- the day after the paid diversion program ends -- the dairy price support level may be cut another 50 cents per hundred weight if estimated annual CCC purchases exceed six billion pounds milk equivalent. In light of present estimates of quantities purchased by the CCC through legislated mandatory purchases of milk equivalent, these cuts will be instituted.

The federal government can only encourage a reduction in dairy herds by allowing milk prices to transmit the appropriate signals to dairy producers. Current projections suggest dairy price supports should be reduced to appropriate market levels. Only then will milk producers be able to realistically determine the required production.

The present dairy program needs changes, the price mechanism is faulty, but a radical immediate scrapping of the program is not the answer.

NPPC realizes that dairy farming, in relative terms has been an attractive alternative in recent years to other on-farm enterprises, but with falling milk prices and land values the picture has rapidly changed.

NPPC's producer members do not propose immediate adoption of "free market orientation" to the dairy sector. This would mean chaos in the dairy industry and bankruptcy for many smaller farm families.

However, the greatest problem facing the dairy industry, both short term and long term, is excess capacity. There are just too many dairy cows, too much equipment, and unfortunately, too many farmers producing milk compared to what the marketplace will absorb. In dairying, the excess capacity problem in both the near and the long term is even more severe than for U.S. agriculture in general. In the near term, the problem is critical because over the past five years, there has been virtually no net exit of resources from the industry, unlike the net displacement of pork producers. In large part, current overproduction stems from erroneous price signals from federal programs in the late 1970's and early 1980's. As a consequence, what we have today is a pent-up need for resources to leave the dairy sector.

It was policies of the Federal government that drew resources into the dairy industry with high support prices. Easing the pain of transition in the dairy business and farming in general should be a major focus of your Subcommittee. Short term adjustments will be severe in dairying because there is simply no good alternate use for a milking facility.

Even if presently needed adjustments are made, the excess of capacity problems will not go away. Within the next decade, new technological developments, such as embryo transplants and bovine growth hormones, are likely to result in even greater productivity increases. The potential for excess capacity is likely to pose an even more severe threat as we move into the future.

The transition for dairy farmers from heavy dependence on government regulation and price supports, to more market oriented programs will mean significant economic change. However, such adjustments will reduce both U.S. Treasury and consumer costs, and in the long run will benefit dairy farmers.

The 1985 Farm Bill should modify the dairy program to enable market prices to begin to reflect supply and demand conditions.

The price support provisions in the 1985 Bill should provide a transition to a longer term program that generally avoids market intervention and stock accumulation. Any income support efforts should be based on producer needs.

Price support levels should not be specified in law, nor should base levels be indexed. Price support minimums should be decreased gradually from current levels and, in the long term, phased down to appropriate market levels.

Export Initiatives - Although the market forces of supply and demand would, if left to their own devices, function well in the domestic context, that is not necessarily the case in the export market, where competition on an equal basis with foreign producers may require that the Federal government intervene to offset unfair foreign marketing practices, cartels, or subsidies and to develop foreign markets in a fashion not accomplishable by individual producers who lack governmental authority and cannot readily act in concert.

While the overseas market for pork appears to be limited at present to an amount that fluctuates between 1 and 2 percent of our annual production (approximately $150 - $300 million), AMI is convinced that the government could do more to enhance the overseas sales of pork products and of all major commodities. Accordingly, we endorse exploration and implementation by the federal government of a wide range of export promotion initiatives that would increase the demand for American agriculture without entailing excessive budget costs. This may be accomplished through furnishing concessional loans or supporting Public Law 480, sales and donations to needy countries, or extending export credits or any other budget-sparing device. Subsidies should be resorted to by the United States only under conditions suggesting that they are necessary to combat subsidies already extended by competing countries that have displaced us from our traditional markets.

NPPC opposes any resort to trade embargoes or any threat to utilize them applied to any goods or services produced in the United States and intended for sale overseas that operates to undermine the confidence of overseas consumers in our reliability as a supplier. We especially oppose any embargo, threatened or actual, that would focus solely upon one or more agricultural products.

Resource Conservation - NPPC recognizes that future agricultural productivity in this country depends upon the continued availability of an adequate supply of ground water and fertile cropland. It is in the long-term interest of agriculture not to exhaust these resources for short-term profit. We support any so-called "sodbuster" legislation that would deny all federal program benefits for commodities produced on certified highly erodible or marginal land.

NPPC opposes any creation of a conservation reserve through buying-up and retiring fragile or marginal lands that have been used for production because we believe that such use of federal funds would reward improper agricultural practices. The excessive costs associated with farming such land should, absent any government payment, ultimately render such land unattractive for continued exploitation. In particular, we would strongly object to any paid conservation program that encourages the use of idled land for the purpose of raising livestock.

Research and Education - NPPC is convinced that the federal government is able to undertake research and consumer education programs that are beyond the means of individual commodity producers, including pork producers, but that enhance the well-being of the American consumer by assuring the provision of an abundant, safe supply of reasonably-priced food. We endorse the continuation and expansion of research that would lower costs and enhance consumption through (1) promoting the acceptability to the consumer of pork and pork products as a healthy component of a normal diet, (2) extending the shelf life of pork and pork products, (3) improving the efficiency by which feed is transformed into edible lean pork through the incentive of pricing systems based on lean meat or through technological change, and (4) improving the collection and distribution of market information and supply forecasting in order to overcome, or at least moderate, disastrously inefficient cycles of production.

Diet/Health - NPPC urges the House to review the current process of developing public policy relating to nutrition messages to consumers.

We feel it is imperative that Congress establish a mechanism for the coordination of messages that government sends to the consuming public about the nutritional contribution of animal-based products and insure that any such advice is derived from sound scientific research. Government messages to consumers must not pit one government agency against another.

The government should recognize the serious economic impact of any unfounded negative statements about the consumption of meat or livestock products that it makes or endorses and take special care before becoming involved in adversely affecting consumer demand.

The federal government engages in substantial purchases of commodities under specific programs intended to furnish foodstuffs to needy persons. These include the elderly, school children, charitable institutions, day care programs and summer camps. All told, commodity purchases for these purposes in fiscal year 1983 amounted to nearly $1.4 billion. As long as these programs continue to be funded, they should be administered in such a fashion that they do not discriminate among competitive red meat products.

In fiscal year 1983, $10 worth of beef was purchased for these purposes for every $1 worth of pork, and $7.50 worth of chicken and turkey for every $1 worth of pork. The lasting effect of these discriminatory purchases and subsequent programs is to suggest, particularly to school children in their formative years (in the school food program, the beef-to-pork and poultry-to-pork ratios were 30 to 1 and 20 to 1, respectively), that it is better to eat beef, chicken and turkey than to consume pork. Lifelong consumption habits that undermine the sales of pork and pork products are likely to result from this pattern of governmental favoritism. The government should exhibit scrupulous neutrality among competing products in handling its commodity purchases for social welfare purposes.

Mr. Chairman, I thank you for this opportunity to be heard. If there are any questions, I will be glad to try to answer them.

# # # # #

NCA

NATIONAL
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Testimony on Behalf of the

NATIONAL CATTLEMEN'S ASSOCIATION

regarding
Dairy Programs

before the
Subcommittee on Livestock, Dairy, and Poultry
Agricultural Committee
U.S. House of Representatives

submitted by

Dale Humphrey
Chairman of NCA's Agricultural Policy Committee

accompanied by

John W. Ross
NCA Director for Tax, Finance and Farm Policy

and

Chandler Keys
NCA Policy Analyst

March 27, 1985

The National Cattlemen's Association is the national spokesman for all segments of the nation's beef cattle industry--including cattle breeders, producers, and feeders. The NCA represents approximately 230,000 professional cattlemen throughout the country. Membership includes individual members as well as 51 affiliated state cattle associations and 18 affiliated national breed organizations.

Introduction

Mr. Chairman, I want to thank you and the members of the Dairy, Livestock and Poultry Subcommittee for this opportunity to comment, on behalf of the membership of the National Cattlemen's Association, on the dairy program. My name is Dale Humphrey, and I serve as the Chairman of NCA's Agricultural Policy Committee. I am a cattleman and grain farmer from Indiana.

Mr. Chairman, the members of the NCA want to work with the dairy industry and other meat and poultry industry groups to develop a dairy program that we can live with--one that will not adversely affect us. The members of this Subcommittee know that the National Cattlemen's Association, and other red meat and poultry organizations, opposed the dairy diversion program when it was enacted in 1983. Our membership viewed it as shortsighted policy that directly and adversely affected the cattle industry. We do not want to see a repeat of that program.

We have talked with some--but not all--of the dairy industry groups. We want to continue these discussions. We are working with the other meat and poultry groups to make sure that the dairy industry understands and takes into account our concerns in developing any dairy program.

After all, dairy beef accounts for about 20 percent of all beef and 40 percent of the cow beef produced in the United States. Changes in the dairy program directly affect our cow beef market, where we already must compete with a substantial amount of imported beef. Indirectly, fed beef prices may also be affected by the dairy program. It is our desire that Congress recognize and minimize any adverse impact of the dairy program on the beef cattle industry.

As an example of the effect that the dairy program can have on the beef industry, let me review what happened when the present dairy diversion program was under discussion in the summer and fall of 1983. At that time, many industry analysts, NCA analysts, and even members of Congress suggested that as many as one million dairy cows might come to market under the program. Our beef markets reacted very strongly to this suggestion, and beef cow prices fell from $41.14 per hundredweight in July, 1983 to $33.26 in January, 1984. The September, 1983 price, $37.75 per cwt., was the lowest on the cow market since 1978!

The market did recover after it was clear that participation was low, and beef cow prices moved up to $42.60 per cwt. in March of 1984. However, by that time the damage had been done.

Mr. Chairman, we continue to oppose diversion-type programs for this same reason -- the diversion payments encourage and, in fact, subsidize the slaughter of dairy cows in direct competition with the beef producers in this country. Dairy farmers respond to government programs, instead of to economic signals from the milk and beef markets, and these same programs distort the economic signals beef producers must respond to in the beef markets.

Further, we are not convinced that the diversion program has accomplished anything more than a delay in the day of reckoning for the dairy industry. While commercial milk marketings have fallen by 2.4 percent, milk production has only fallen 1.6 percent because on-farm use has increased. Further, while the dairy cow herd has declined 2 percent, dairy replacement heifers have increased by over 5 percent. In fact, the increase in dairy replacement heifers nearly offsets the reduction in the cowherd, leaving less than one-half percent net change in the size of the potential dairy herd.

From a beef cattle producer's viewpoint, the dairy diversion program was a no-win proposition. If participation had been high, we would have seen a flood of dairy cows come onto the market in a very short period of time, with disastrous consequences for all beef prices, but particularly for cow beef prices. With the low participation that we did have, however, we are now facing the problem again. In fact, the problem mey be compounded by the dairy heifers retained in anticipation of the end of the program. Dairy farmers now have more than 46 replacement heifers for every hundred cows in the milking herd. This rate of retention clearly indicates a larger dairy herd, not a smaller one.

When the Dairy and Tobacco Adjustment Act of 1983 was passed, Congress essentially said to the dairy industry: "You have fifteen months to let this dairy diversion program help you reduce milk production. If you do not reduce production enough, then the milk support price will be reduced in two clearly scheduled increments." This Act now has about six months to run, from April 1 (the end of the diversion program) to October 1 (the expiration of the 1983 Act).

The members of the NCA want to see this program run its course; let the diversion program end on March 31, and let the milk support price go to $12.10. Dairy producers would be receiving the same price as they now receive, given the $.50 assessment currently in effect. If the USDA still expects net CCC purchases to exceed 5 billion pounds on July 1, let the Secretary reduce the milk support price by another $.50 per cwt. Dairy producers had ample notice of the terms of the program. The cattlemen of this country wish they had as much forewarning about price changes as this program offers dairy producers.

Meanwhile, let us and the other affected groups work with the dairy industry to develop a dairy program that we can all live with. We should be able to develop a program to be incorporated into the 1985 Farm Bill, that will have broad support within agriculture.

Mr. Chairman, again we appreciate this opportunity to testify. We encourage the Subcommittee to let the current dairy program run its course while we work to arrive at a plan that is mutually agreeable to all agricultural groups.

(Attachments follow:)

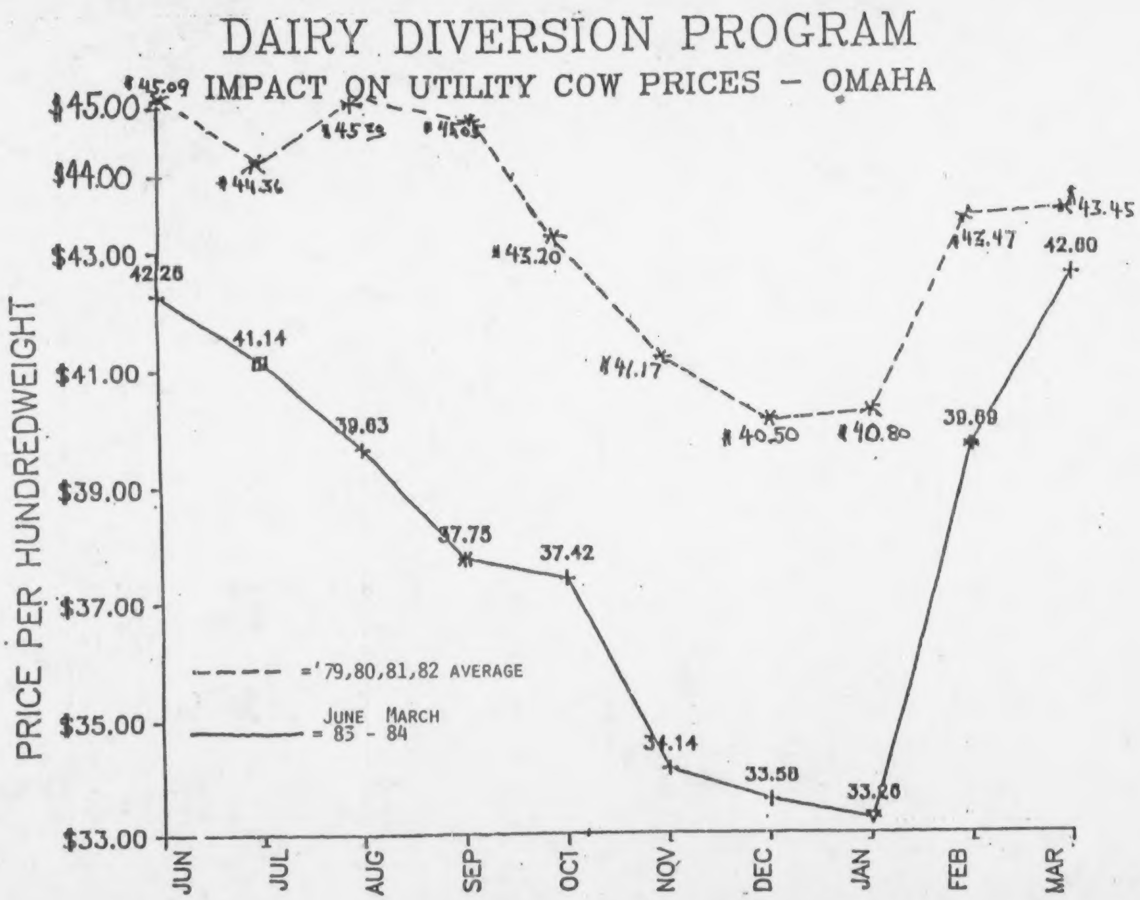
NCA

NATIONAL
CATTLEMEN'S
ASSOCIATION

DAIRY PRODUCTION FIGURES 1980-1985

	1980	1981	1982	1983	1984	1985
Milk Production (billion lbs)	128.4	132.8	135.5	139.7	135.4	
Milk Consumption (billion lbs)	---	122.0	122.1	125.5	127.5	---
# of Dairy Cows January 1 Million Head Year average	10.8	10.8	10.9	11.0	11.1	10.8
# of Dairy replacement heifers Million Head Year average	4.45	4.34	4.55	4.55	4.53	4.76
# of Dairy replacement heifers per 100 dairy cows	41	40	41	41	41	45
Milk production per cow (lbs per year)	11,891	12,183	12,306	12,585	12,495	---
Net cost CCC dairy program billion $ FY	1.01	1.9	2.2	2.5	1.5	---

Milk Price Support	10/1/79 thru 3/31/80	4/1/80 thru 9/30/80	10/1/80 thru 9/30/81	10/1/81 thru 10/20/81	10/21/81 thru 11/30/83	12/1/83 thru 3/31/85
$ per cwt	11.49	12.36	13.10	13.49	13.10	12.60



DAIRY DIVERSION PROGRAM

IMPACT ON UTILITY COW PRICES – OMAHA

CONNECTICUT DAIRY PRODUCTION AND INCOME STATISTICS

MILK: FARM PRODUCTION AND VALUE OF MILK AND MILK PRODUCTS SOLD, CONNECTICUT, 1973-1983

YEAR	NUMBER OF MILK COWS ON FARMS	PRODUCTION					FARM VALUE OF MILK PRODUCED
		PER MILK COW		PERCENTAGES OF FAT IN ALL MILK PRODUCED	TOTAL		
		MILK	MILKFAT		MILK	MILKFAT	
	1,000	Pounds		Percent	Million Pounds		1,000 Dollars
1973	54	11,370	422	3.71	614	23	52,988
1974	54	11,352	425	3.74	613	23	62,158
1975	54	11,259	419	3.72	608	23	61,955
1976	54	11,407	422	3.70	616	23	68,006
1977	52	12,000	444	3.70	624	23	68,016
1978	50	12,280	454	3.70	614	23	72,391
1979	49	12,367	451	3.65	606	22	79,265
1980	48	12,750	458	3.59	612	22	85,068
1981	49	12,735	461	3.62	624	23	91,978
1982	48	13,417	486	3.62	644	23	94,282
1983	49	13,347	487	3.65	654	24	94,680

MILK: QUANTITIES USED AND MARKETED BY FARMERS, CONNECTICUT, 1973-1983

YEAR	TOTAL PRODUCED	MILK USED ON FARMS WHERE PRODUCED			MILK MARKETED BY FARMERS		
		USED FOR MILK, CREAM & BUTTER	FED TO CALVES	TOTAL	SOLD TO PLANTS & DEALERS	SOLD DIRECTLY TO CONSUMERS	TOTAL
				Million Pounds			
1973	614	6	6	12	580	22	602
1974	613	6	6	12	580	21	601
1975	608	6	6	12	575	21	596
1976	616	6	6	12	585	19	604
1977	624	6	6	12	595	17	612
1978	614	7	5	12	585	17	602
1979	606	6	4	10	580	16	596
1980	612	4	6	10	585	17	602
1981	624	4	6	10	600	14	614
1982	644	3	7	10	620	14	634
1983	654	3	7	10	630	14	644

MILK: QUANTITY MARKETED, PRICE AND CASH RECEIPTS, CONNECTICUT, 1973-1983

YEAR	SOLD TO PLANTS		SOLD DIRECTLY TO CONSUMERS		COMBINED MARKETINGS		
	QUANTITY	PRICE PER CWT.	QUANTITY	PRICE PER QUART	QUANTITY	PRICE PER CWT.	CASH RECEIPTS
	Million Pounds	Dollars	Million Quarts	Cents	Million Pounds	Dollars	1,000 Dollars
1973	580	8.34	10.2	35	602	8.63	51,594
1974	580	9.80	9.8	42	601	10.14	60,942
1975	575	9.80	9.8	45	596	19.19	60,745
1976	585	10.70	8.8	46	604	11.04	66,660
1977	595	10.60	7.9	46	612	10.90	66,707
1978	585	11.50	7.9	47	602	11.79	70,991
1979	580	12.80	7.4	50	596	13.08	77,961
1980	585	13.60	7.9	52	602	13.90	83,672
1981	600	14.50	6.5	54	614	14.74	90,516
1982	620	14.40	6.5	54	634	14.64	92,796
1983	630	14.40	6.5	54	644	14.63	94,236

MILK: SOLD TO PLANTS, MONTHLY PRICE PER CWT.
RECEIVED BY FARMERS, CONNECTICUT, 1973-1983

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
						Dollars						
1973	7.80	7.80	7.65	7.40	7.35	7.30	7.85	8.65	9.40	9.70	10.00	9.90
1974	10.00	10.10	10.10	10.00	9.45	8.85	9.20	9.65	9.95	10.30	10.20	9.70
1975	9.70	9.65	9.30	9.10	8.65	8.50	9.25	9.80	10.50	10.95	11.20	11.30
1976	11.30	11.00	10.90	10.00	9.80	9.65	10.30	10.90	11.20	11.50	11.20	10.70
1977	10.60	10.50	10.20	10.00	9.70	9.90	10.50	10.90	11.20	11.40	11.40	11.20
1978	11.20	11.20	10.90	10.70	10.60	10.50	11.00	11.70	12.10	12.60	12.90	12.60
1979	12.70	12.80	12.40	12.20	11.90	11.90	12.40	13.00	13.30	13.70	13.70	13.40
1980	13.40	13.40	13.20	12.90	12.80	12.60	13.20	13.60	14.10	14.60	14.80	14.80
1981	14.80	14.70	14.40	14.20	13.90	13.80	14.20	14.50	14.80	15.10	15.00	14.80
1982	14.80	14.60	14.40	14.10	13.70	13.60	14.10	14.40	14.80	14.90	15.00	14.70
1983	14.60	14.60	14.30	14.10	13.80	13.70	14.20	14.60	14.80	15.10	15.10	14.50

Table 5. Changes in production of Connecticut agriculture, 1952-1983.

	1952	1962	1972	1982	1983	Percent Change 1972-1983
Milk, sales from commercial farms (mil. lbs.)	655	694	639	643	654	+2
Eggs (millions)	720	742	924	1,057	1,073	+16
Broilers (thousands)	21,154	13,976	3,329	N.A.[1/]	N.A.	N.A.
Potatoes (thousands bushels)	2,044	2,497	1,015	881	444	-56
Tobacco (acres)	17,100	7,530	4,350	2,400	1,940	-55
Vegetables (acres)	16,050	13,070	7,945	8,900	9,200[2/]	+16
Apples (thousands units)[3/]	1,273	1,745	714	1,310	1,048	+47

1/ N.A. = not available.
2/ Estimate
3/ 42-pound units.

Table 6. Trends in commercial dairying, Connecticut, 1940-1984.

Year	Farms registered for sale of milk	Cows on farms registered for sale of milk	Production per cow commercial herds	Cows per farm	Milk production per farm	Milk Deliveries farms selling milk
	(no.)	(no.)	(lbs.)	(no.)	(lbs.)	(lbs.)
1940	6,233	103,000	5,500	17	91,000	569,000,000
1945	5,211	107,000	5,700	21	116,000	606,000,000
1950	4,540	99,000	6,600	22	143,000	651,000,000
1955	3,689	103,000	6,900	28	191,000	706,000,000
1960	2,594	85,000	8,300	33	271,000	703,000,000
1965	1,559	69,000	10,000	44	443,000	691,000,000
1970	1,127	61,000	10,600	54	572,000	645,000,000
1975	817	52,000	11,300	63	744,000	608,000,000
1980	663	48,000	12,700	74	908,000	602,000,000
1982	614	49,000	13,100	79	1,047,000	643,000,000
1983	594	49,000	13,300	82	1,101,000	654,000,000
1984	566	46,000				

Table 7. Dairy farms in Connecticut with permits to sell milk, by counties, 1970-1984.

County	1970	1972	1974	1976	1978	1980	1982	1984	Change, 1970 to 1984
				(number)					
Windham	185	164	149	136	131	119	116	104	-44
New London	207	196	164	149	141	132	126	115	-44
Tolland	96	87	77	71	66	64	58	53	-45
New Haven	98	83	72	65	64	54	51	51	-50
Litchfield	314	281	231	218	190	178	161	152	-52
Middlesex	50	48	38	33	28	29	25	23	-54
Hartford	126	106	98	92	81	69	59	50	-60
Fairfield	51	44	34	29	26	18	18	18	-65
Total	1,127	1,009	863	793	727	663	614	566	-50

Table 8. Milk production changes in Connecticut by counties, 1970-1984 and percent distribution of Connecticut's milk production among counties, 1984.

County	1970	1984	Change, 1970 to 1984	Percentage of CT total production 1984
	(lbs. produced on a day of reg.)		(percent)	(percent)
Litchfield	534,690	400,620	-25	23
Windham	362,419	389,833	+11	22
New London	328,939	320,839	- 2	19
Tolland	223,554	311,691	+39	18
Hartford	205,136	121,219	-41	7
New Haven	166,245	114,354	-31	7
Middlesex	69,585	57,602	-17	3
Fairfield	69,160	21,425	-69	1
Total	1,959,628	1,737,586	-11	100

Information Courtesy of:

Agricultural Economics Department, University of Connecticut

New England Crop Reporting Service, U.S.D.A.

TESTIMONY OF

FRED DOUMA
CHAIRMAN
MILK PRODUCERS COUNCIL

Mr. Chairman and members of the committee, my name is Fred A. Douma. I am a dairy producer from Southern California. I am also the Chairman of Milk Producers Council, a trade association of dairy producers. My testimony today is endorsed by all of the various producer groups of Southern California and in concert in principle with the majority of the entire dairy industry in California.

Our proposals for the 1985 Farm Act dairy programs can be divided into four basic positions.

The first position is a firm belief in the necessity of maintaining the current type of purchase program, i.e. outright purchase of cheese, butter and non-fat powder. This type of program is necessary to maintain stability in the dairy industry because of the very perishable nature of fluid milk products and the response time to changing market conditions. The response time to a tight market is at a minimum two and one half years to enable the necessary increase in milking cows to come on line. Conversely, once a signal is given to increase production and the necessary increase of replacement heifers has taken place, the response time to change a flooded market is equally as long since the increase in replacement heifers has already happened.

This natural response time to change in market demands and the increase relationship in the commercial market place should clarify the necessity of maintaining a truly market related support program. Any dairy program should truly be a price stabilization program and not a price enhancement program.

Our second position is to achieve for the long term a tie between the support price for dairy products and the real cost of producing milk. A dairy specific parity index, as developed by National Milk Producers Federation, appears to achieve this goal. This type of index has the ability to track current and actual costs of producing milk, whereas the parity index which exists in current law has very little relationship to milk production costs.

The third position that we support is the application of mandatory and discretionary supply-demand adjustments to any price which is determined through a dairy specific index. This kind of adjustment would enable the Secretary to achieve a proper market oriented price.

A three to four billion pounds of milk equivalent purchase by Commodity Credit Corporation should be the base level to implement either a plus or minus factor to the index price. Any increase in import quotas of dairy products should be added to the base level of C.C.C. purchases.

Our fourth position is the acceptance of the $11.60 per hundredweight support price, which appears to be inevitable under current law to be the price on July 1 of this year, as the support price until expected C.C.C. purchases are below four billion pounds of milk equivalent.

We believe this price level will accomplish this goal by October of 1986 unless feed prices do not make the expected and justified upward adjustment. As a last resort, we could accept a stand-by authority after October 1986 for further adjustment below the $11.60 per hundredweight support price of $.50 increments if the goal of four billion pounds of C.C.C. purchases is still not expected to be achieved.

The groups that I represent emphatically oppose any program or even "stand-by authority" for a milk support program based on quotas, production bases, diversion payments, producer assessments or similar programs. Adjustments in production and consumption must be accomplished through adjustments in the price. Any diversion program or quota system will and has created distortions in available milk supplies in some areas while maintaining C.C.C. purchases in other areas.

Assessments on all milk production are a penalty on producers who are serving the commercial market and creates a source of funds to purchase products from areas which are unable or unwilling to serve a greater share of the commercial market.

Likewise, quota programs would prohibit the proper allocation of resources to the production areas which are the most efficient source of milk to a particular area because of costs and location of that milk.

The recent experience of the Milk Diversion Program has shown how ineffective this type of program is in achieving the structural adjustments necessary to reduce the potential milk marketing capability. The major part of the recent reduction in milk marketing was an increase of on farm use of milk. This was a ridiculous use of diversion payments which allowed participants the ability to enter or expand in the veal and pork industries with monies intended to reduce overall cow numbers.

The majority of participants in the Milk Diversion Program had already reduced production in the year following the base period before a diversion program was implemented for reasons not related to the Milk Diversion Program but were compensated for this reduction also. Even more astounding was the fact that non-participants in the Milk Diversion Program with reductions in their total production exceeding 5% of their base, amounted to a larger share of the net reduction in production overall than the total volume reduced by participants. This could only mean that the price adjustment which took place did and will have an effect on milk production.

A voluntary diversion program would always have as its main pitfall the desire for producers to make temporary cutbacks in production with the goal of being in a position to return to full capacity at the end of any contract period. This does not achieve the necessary adjustments needed for long range solutions.

The price alternative will send the proper signal to producers. More importantly the demand side of the supply/demand equation will respond with increased sales of dairy products.

The recent history can only emphasize this important fact. While milk production decreased by 1%, the commercial use of dairy products increased by 3%. This was the result of stable and lower prices and the improved economy in general. This increase in commercial use of dairy products has played a major role in reducing C.C.C. purchases in the past marketing year.

We urge your consideration and support for a price and market oriented dairy support program. We oppose any type of base, diversion and assessment type of program. We oppose any consideration of a target price program with deficiency payments. A dairy price support program with appropriate and timely supply-demand adjustments will achieve the necessary stability needed in the dairy industry to maintain the milk production necessary to adequately serve the consuming public with a necessary and vital food product at the most reasonable price.

We thank this committee for the opportunity to have this input on this important subject.

[Attachment follows:]

MILK DIVERSION PROGRAM (MDP) ANALYSIS SUMMARY 1/

Market administrators in Federal milk marketing orders combined their records with Milk Diversion Program information provided by the Agricultural Stabilization and Conservation Service (ASCS) in order to analyze marketing changes on individual dairy farms. The report contains information for the first three quarters (January-September) of 1984.

Monthly Federal order marketing records for over 100,000 farms, representing approximately 60 percent of total U.S. milk marketings, were compiled and analyzed for this study. ASCS diversion contracts were used to divide farms into two groups: farms with a signed diversion contract to reduce marketings (MDP participants); and farms which chose not to participate (nonparticipants). Three comparisons were made for both participants and nonparticipants: 1983 marketings versus the base period marketings; 1984 marketings versus the base period; and 1984 marketings versus 1983 marketings.

Even prior to the MDP, eventual participants were generally reducing marketings, while nonparticipants tended to increase marketings. Between the base period and 1983, approximately 69 percent of the participants reduced marketings, while the remaining 31 percent increased marketings. Nearly the inverse proportions occurred with nonparticipants: Approximately 36 percent reduced marketings (base period--1983), while 64 percent increased marketings. On average, participants decreased marketings 5 percent between the base period and 1983, while nonparticipants increased marketings 7 percent.

MDP participants, on average, decreased marketings in each quarter of 1984 relative to the base period. The rate of decrease escalated as the year progressed: 21.5, 27.0, and 28.4 percent, respectively, for the three quarters. For the nine-month period in its entirety, participants decreased marketings 25.5 percent relative to the base period. For most Federal orders, participants reduced marketings during the nine-month period, on average, to a greater extent than called for in their contracts. Approximately 83 percent of all participants in the study were at or below the acceptable contracted level after 9 months. The remaining 17 percent were still marketing milk at levels in excess of their contract. All Federal order groups represented, except two (Texas and the Florida orders), had approximately 80 percent or more of participants within acceptable contract compliance levels.

Large numbers of nonparticipants also reduced marketings between the base period and 1984. In fact, the number of nonparticipants with marketing declines of 5 percent or more exceeded the number of participants for all orders combined. However, some regional disparity did exist among orders. In Federal orders in the northern U.S., nonparticipants with marketing declines of 5 percent or more tended to greatly exceed the number of participants; while in the south, the number of participants exceeded the number of nonparticipants with marketing declines exceeding 5 percent. Participation in the MDP could have doubled if these nonparticipants had chosen to participate. However, the cost of the MDP might also have increased significantly without any significant decreases in U.S. marketings.

MDP participants generally decreased marketings between 1983 and 1984. However, their level of decrease was less than the level which occurred in the base-1984 period. For the nine-month period, the base-to-1984 decrease was 25.5 percent; however, the 1983-84 decline was only 22.5 percent. This was the result of marketing declines which occurred between the base period and 1983.

More than half (55.1 percent) of the nonparticipants increased marketings during the nine-month period of 1984 relative to the same period of 1983. The remaining 44.9 percent decreased marketings. However, the percentage varied among the quarters--the number of nonparticipants decreasing marketings exceeded the number increasing marketings in the third quarter. Also larger volume farms had a greater tendency to increase marketings than smaller farms which tended to decrease marketings.

Nonparticipants who decreased marketings represented a substantial number of farms. In most quarters of 1984, this group contained twice as many farms as the group of participants. Moreover, in each quarter, nonparticipants with marketing decreases were responsible for total declines approximately equal to or greater than the participants' declines.

Further analyses for the entire MDP period (January 1, 1984, through March 31, 1985) as well as for a period after the program ends are planned.

1/ This summary was from a report entitled "MARKETING CHANGES IN FEDERAL MILK MARKETING ORDERS: A farm level analysis of the milk diversion program, participants and nonparticipants, Part 1: January-September 1984." Federal milk market administrators' offices contributed data necessary for the report. The report was prepared by the New York-New Jersey milk market administrator's office--Robert D. Wellington, project leader. For additional information about or requests for copies of the report, contact Mr. Wellington at (212) [illegible].

EDITOR'S NOTE: For additional background information regarding the MDP, see weekly Dairy Market News Report Volume 52, Report No. 9 and Volume 51, Report Nos. 43, 6, and 1.

STATEMENT OF CONGRESSMAN TOBY ROTH (8 - WISCONSIN)
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
DAIRY POLICY ISSUES
MARCH 27, 1985

MR. CHAIRMAN, THE DAIRY INDUSTRY IS CHANGING RADICALLY. NEW TECHNOLOGIES, INCREASED FOREIGN COMPETITION AND THE DECLINE IN THE NUMBER OF COMMERCIAL DAIRY FARMS ALL PLAY A ROLE IN CHANGING OUR PRESPECTIVES ON OUR DAIRY SECTOR. THE DAIRY TITLE OF THE 1985 FARM BILL MUST BE FORWARD LOOKING AND MEET THE PROBLEMS WE FORESEE FOR THE FUTURE. WE CANNOT CONTINUE TO BASE OUR DECISIONS ON WHAT WAS HAPPENING AT THE TURN OF THE LAST CENTURY.

I REPRESENT SOME 7,200 DAIRY FARMERS IN NORTHEASTERN WISCONSIN, THE THIRD LARGEST DAIRY DISTRICT IN THE NATION. IN RECENT WEEKS I HAVE HAD THE OPPORTUNITY TO VISIT WITH MANY OF THEM AND THEY ARE CONVINCED THAT THE GOVERNMENT SHOULD GET OUT OF AGRICULTURE. THE QUESTION IS, "HOW AND HOW FAST SHOULD THE GOVERNMENT GET OUT?"

WE HAVE HAD NEARLY 70 YEARS OF SOME FORM OF GOVERNMENT INTERVENTION IN AGRICULTURE. YOU JUST CAN'T SLAM THE DOOR SHUT ON FARM PROGRAMS OVERNIGHT. RATHER, WE MUST EVOLVE TOWARD A FREE MARKET OR WE WILL END UP HURTING BOTH THE FARMER AND THE CONSUMER AND POSSIBLY DESTROYING THE FAMILY FARM.

WE HAVE ALREADY HAVE IN PLACE THE DAIRY DIVERSION PROGRAM. MILK PRODUCTION IS DOWN THREE PERCENT. GOVERNMENT PURCHASES ARE DOWN NEARLY FIFTY PERCENT. AND GOVERNMENT COSTS FOR THE DAIRY PROGRAM HAVE BEEN CUT BY OVER $1 BILLION. THIS PERFORMANCE DEMONSTRATES THAT THE "SELF-HELP" AND "SUPPLY MANAGEMENT" CONCEPTS WORK AND SHOULD BE MAINTAINED.

I AM SUPPORTING LEGISLATION, H.R. 111, TO EXTEND THE DAIRY DIVERSION PROGRAM FOR SIX MONTHS, TO SEPTEMBER 30, 1985. IF WE DO NOT EXTEND THE PROGRAM THE FARMER WILL BE FORCED TO LIVE UNDER THREE DIFFERENT GOVERNMENT PROGRAMS IN

ONE YEAR: THE DIVERSION PROGRAM, THE TWO, FIFTY-CENT PER HUNDREDWEIGHT PRICE CUTS AND FINALLY, WHATEVER IS DETERMINED AS THE DAIRY TITLE OF THE 1985 FARM BILL.

IN FARMING, AS IN ALL BUSINESSES, IT IS IMPORTANT TO PLAN AHEAD. HOW CAN WE EXPECT THE DAIRY FARMER TO PLAN HIS PRODUCTION LEVELS IF WE KEEP CHANGING THE GUIDELINES ON HIM? THREE PROGRAMS IN ONE YEAR IS AN UNREASONABLE DEMAND TO IMPOSE, EVEN FOR THE FEDERAL GOVERNMENT.

IF WE HAVE LEARNED ONE LESSON IN THE LAST FOUR YEARS, IT IS THAT PRICE CUTS ENCOURAGE PRODUCERS TO INCREASE, NOT DECREASE, PRODUCTION AS FARMERS TRY TO RECOVER DECREASED PER-UNIT PROFITS OVER A GREATER AMOUNT OF PRODUCTION. THE DIVERSION PROGRAM HAS BEEN VERY SUCCESSFUL IN DOING WHAT IT WAS DESIGNED TO DO: STOP THE CONTINUED INCREASE IN MILK PRODUCTION, COW NUMBERS AND GOVERNMENT PURCHASES.

IT IS ALL THE MORE SATISFYING TO NOTE THAT DAIRY FARMERS THEMSELVES, AS A RESULT OF THE LAW'S FIFTY-CENT PER HUNDREDWEIGHT ASSESSMENT ON ALL MILK MARKETED, HAVE PAID THE ENTIRE COST OF THE DIVERSION PAYMENTS MADE TO THOSE WHO AGREED TO REDUCE THEIR PRODUCTION. WHILE THERE ARE CERTAINLY PROBLEMS WITH THE PROGRAM, INCLUDING MOST OF THE MAJOR PAYMENTS GOING TO LARGE "MILK FACTORIES," WE MUST LOOK AT THE NUMBER OF BENEFITS IT HAS ACHIEVED.

A PORTION OF THE LEGISLATION WHICH ENACTED THE DIVERSION PROGRAM ADDRESSED THE MUCH OVERLOOKED AREA OF MARKETING. I HAVE LONG STATED WE DO NOT HAVE AS MUCH A SURPLUS PROBLEM AS WE DO A DISTRIBUTION PROBLEM. THE 1983 DAIRY BILL PROVIDED FOR THE ESTABLISHMENT OF A NATIONAL MILK PROMOTION PROGRAM WHICH HAS PROVED VERY SUCCESSFUL IN HELPING MILK RECAPTURE ITS PROPER SHARE OF THE MARKET. ALL DAIRY FARMERS HAVE BENEFITED FROM THIS PROMOTION THROUGH INCREASED CONSUMER DEMAND. THE DAIRY PROMOTION PROGRAM HAS PUT FORTH A MARKETING EFFORT WITH REAL PUNCH AND THAT'S A GREAT HELP TOWARD SELLING MORE DAIRY PRODUCTS.

WE'VE ALL SEEN THE NEW COMMERCIALS THAT ARE ATTRACTING OUR YOUTH BACK TO THE MOST NUTRITIOUS PRODUCT IN THE WORLD. I AM PLEASED TO REPORT THAT MORE DAIRY PRODUCTS THAN EVER ARE BEING CONSUMED IN THE UNITED STATES.

AT THE SAME TIME WE ARE INCREASING OUR DOMESTIC MARKETING EFFORTS, WE MUST EXPAND OUR OVERSEAS EXPORTS. RECENT SALES OF DAIRY PRODUCTS TO EGYPT AND IRAQ SHOW THAT THERE IS AN INTERNATIONAL MARKET FOR OUR PRODUCTS. WE MUST EXPLORE NEW AND INNOVATIVE APPROACHES TO DEVELOPING MARKETS AND AGGRESSIVELY MEETING OVERSEAS COMPETITION.

IN 1983 LAND O' LAKES, WITH THE ASSISTANCE OF THE U.S. GOVERNMENT'S AGENCY FOR INTERNATIONAL DEVELOPMENT, DEVISED AN INNOVATIVE PRIVATE SECTOR MECHANISM FOR THE UTILIZATION OF DAIRY PRODUCTS BEING HELD BY THE CCC TO PROMOTE ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES. UNDER THE PROJECT PLAN, P.L. 480 COMMODITIES ARE GRANTED TO A SMALL NONPROFIT FOUNDATION IN JAMAICA, WHICH CONTRACTS WITH THE LOWEST BIDDER IN THE COUNTRY TO HAVE THE BULK COMMODITIES PROCESSED INTO VALUE-ADDED PRODUCTS AND SOLD COMMERCIALLY IN MARKETS OUTSIDE THE U.S. AND WHICH ARE NOT AVAILABLE TO U.S. DAIRY PRODUCTS. THE PROFITS GENERATED FROM THE SALE OF THESE PRODUCTS ARE USED TO PROVIDE FINANCING IN THE FORM OF LOANS, LOAN GUARANTEES, INVESTMENTS OF GRANTS, FOR LARGE OR SMALL SCALE PROJECTS TO INCREASE JAMAICAN PRODUCTION AND TO PROMOTE THE GROWTH OF THE JAMAICAN ECONOMY. THE GOAL IS TO ASSIST JAMAICA TO BECOME A VIABLE TRADING PARTNER WITH THE UNITED STATES. I WOULD LIKE TO SEE MORE OF THESE TYPES OF PROJECTS.

I AM PLEASED TITLE I OF THE 1985 FARM BILL ADDRESSES THE ISSUE OF INCREASING AGRICULTURAL EXPORTS. THE MAJOR PROVSIONS PROVIDE A COMMITMENT ON THE PART OF THE U.S. GOVERNMENT TO PROMOTE OPEN ACCESS IN WORLD MARKETS FOR U.S. FARM EXPORTS. THE PROVISIONS SEEK EXPANDED TRADE BY NEGOTIATING WITH OUR KEY TRADING PARTNERS TO IMPLEMENT PROGRAMS WHICH REDUCE RESTRICTIVE TRADE

PRACTICES. WE SHOULD MORE FULLY UTILIZE THE BARTER AND COUNTERTRADE PROVISIONS OF THE LAST FARM BILL TO ACQUIRE STRATEGIC MATERIALS IN EXCHANGE FOR OUR DAIRY PRODUCTS. THIS PROVISION RESULTED IN AN EXCHANGE OF DAIRY PRODUCTS FOR BAUXITE WITH JAMAICA. IN 1983 THERE WAS A $13.6 MILLION EXCHANGE, AND IN 1984 THIS TRADE WAS UP TO $20.4 MILLION.

FINALLY, WHILE I BELIEVE IN MARKET-ORIENTED APPROACHES TO EXPORTING, WE MUST AT THE SAME TIME PROTECT OUR DAIRY FARMER FROM UNFAIR COMPETITION AT HOME. TO THAT END, WE MUST LIMIT THE AMOUNT OF ARTIFICIAL MILK PRODUCTS IMPORTED INTO THE UNITED STATES. CASEIN IMPORTS FOR JANUARY THROUGH SEPTEMBER 1984 STOOD AT 136.5 MILLION POUNDS. THAT IS TWENTY PERCENT ABOUVE THE LEVEL IMPORTED DURING THE SAME PERIOD THE PREVIOUS YEAR. THEY CONTINUE TO RISE.

MY COLLEAGUES HAVE HEARD ME ESPOUSE THIS ISSUE BEFORE, BUT I SERIOUSLY BELIEVE NOW IS THE TIME TO ACT. U.S. DEPARTMENT OF AGRICULTURE STUDIES HAVE CONCLUDED THAT THE UNCHECKED IMPORTATION OF CASEIN INTO THE UNITED STATES HAS DISPLACED AMERICAN DAIRY PRODUCTS, FORCING THE COMMODITY CREDIT CORPORATION TO PURCHASE GREATER STOCKS OF NONFAT DRY MILK. MANY FOREIGN NATIONS ARE SUBSIDIZING THEIR CASEIN PRODUCERS AND THEN MARKETING THE EXCESS PRODUCTION ON THE WORLD MARKET AT BELOW-COST-OF-PRODUCTION PRICES. THEY ARE "DUMPING" THEIR PRODUCTS AND THE AMERICAN TAXPAYER IS PAYING FOR IT TWICE. FIRST, WE ARE PAYING COUNTRIES TO SUBSIDIZE CASEIN PRODUCTION BY ALLOWING THEM TO EXPORT SO GENEROUSLY TO THE UNITED STATES. SECOND, WE ARE BUYING AND STORING OUR OWN NONFAT DRY MILK WHICH CAN BE USED A SUBSTITUTE FOR CASEIN IN AT LEAST FIFTY PERCENT OF THE SITUATIONS.

MR. CHAIRMAN, BEFORE CONCLUDING I WOULD ALSO LIKE TO BRIEFLY TOUCH ON THE CHANGES IN DAIRY TECHNOLOGY. MILK OUTPUT PER LABOR HOUR HAS INCREASED ABOUT 11 PERCENT ANNUALLY SINCE 1979. TO A LARGE EXTENT THIS IS DUE TO INCREASED MILK PRODUCTION PER COW. THROUGH IMPROVED BREEDING, FEEDING, AND MANAGEMENT, MILK

OUTPUT PER COW HAS INCREASED OVER 20 PERCENT DURING THE PAST DECADE. COMPUTER-CONTROLLED FEEDING AND USE OF THE BOVINE GROWTH HORMONE ARE JUST A STEP AWAY FROM BEING COMMON PRACTICE. THE EXPECTED IMPACT OF ADOPTING THESE TECHNOLOGIES IS A PHENOMONAL LEAP IN PRODUCTION.

IN CONCLUSION MR. CHAIRMAN, WE MUST BREAK THE FARMER'S ADDICTION TO A DANGEROUS DRUG -- THE FEDERAL GOVERNMENT. BUT WE MUST ALSO REALIZE THAT THIS CAN NOT BE DONE "COLD TURKEY." I THINK WE MUST TAKE A SERIOUS LOOK AT TITLE VII OF THE PROPOSED 1985 FARM BILL WITH AN EYE TO THE FUTURE AND THE CONSTANTLY ADVANCING TECONOLOGICAL CHANGES THAT ARE BEING MADE IN DAIRY FARMING. WE SHOULD CONTINUE POLICIES THAT ARE WORKING. WE MUST DEVISE A PROGRAM TO PUT THE FARMER IN THE POSTION OF PRICE SETTER INSTEAD OF PRICE TAKER. FINALLY, WE MUST PROMOTE FAIR TRADE IN DAIRY PRODUCTS, TO OPEN THE MARKETS OF THE WORLD TO OUR DAIRY EXPORTS AND TO REFUSE TO SUBMIT TO UNFAIR COMPETITION IN OUR MARKETS AT HOME. IF WE CAN DO ALL THIS, I BELIEVE WE WILL HAVE A DAIRY PROGRAM THAT IS WORTHY OF THE GREAT AMERICAN DAIRY FARMER.

STATEMENT

on
Dairy Diversion Program
to
Committee on Agriculture
Subcommittee on Livestock, Dairy and Poultry
United States House of Representatives
by
Texas Cattle Feeders Association
March 27, 1985

The Texas Cattle Feeders Association (TCFA) represents most of the cattle feeders in Texas, Oklahoma and New Mexico, an area that in 1984 marketed over 6.1 million head--approximately 26% of all the fed cattle marketed in the United States.

TCFA is strongly opposed to any extension or repeat of the dairy diversion program. Our membership opposed the diversion program when it was adopted in 1983 because they were concerned that it would drive down beef cattle prices by encouraging the slaughter of additional dairy cows. As it turned out, our fears were well founded.

The projection that up to one million dairy cows would come to slaughter in a three month period--even though it never happened--helped drive beef cow prices in the fall of 1983 to their lowest levels since 1978. Also, in September of 1983, fed cattle prices dropped to $59.68, a 16% decline from spring prices, partially in response to anticipated heavy slaughter of dairy cows. The 300,000 additional dairy cows which were slaughtered did further depress an already weak beef market.

Dairy producers increased cow slaughter in response to the government's paid diversion program. In contrast, the beef cattle industry was forced to respond to market signals that were distorted by government action. In essence, diversion payments to dairy producers artifically encourage the slaughter of dairy cows in direct competition with beef cows. This results in nothing more than subsidized competition for our industry.

The beef cattle industry questions the long-term success of the diversion program. Federal purchases of surplus dairy products did indeed decrease in 1984, but this had less to do with the diversion program than with the general economic recovery. As consumer disposable income increased, consumption of ice cream, cheese and other dairy products increased.

Also, commercial milk marketings have fallen 2.4%, in line with the program objective, but milk production has only fallen 1.6%. The difference is attributable to an increase in the on-farm use of milk, which means the productivity capacity is still out there.

Further, while the dairy cow herd has declined 2%, dairy replacement heifers have increased by over 5%. Dairy farmers now have more than 46 replacement heifers for every 100 cows in the milking herd. This rate of retention clearly indicates a larger dairy herd coming, not a smaller one.

A recent survey of Texas dairymen indicated that further increases in production were planned by both participants and non-participants in the diversion program. The average increase in production projected by all survey participants was 23%. However, diversion-program participants planned larger production increases, with 62% of participants indicating that they would increase output by 32% between April 1, 1985 and April 1, 1986.

TCFA feels that the diversion program should be allowed to expire and not be repeated. A solution to the dairy problem is needed. However, Congress should not implement future dairy programs which will adversely affect other sectors of the livestock industry.

GENERAL FARM BILL OF 1985

(Dairy Program)

THURSDAY, APRIL 11, 1985

House of Representatives,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Holmen, WI.

The subcommittee met, pursuant to notice, at 9:54 a.m., in the auditorium, Holmen High School, Main Street, Holmen, WI, Hon. Tony Coelho (chairman of the subcommittee) presiding.

Present: Representatives Jeffords, Gunderson, and Penny.

Staff present: Kim Schnoor.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Coelho. We are meeting this morning to receive testimony from Midwest regional interests about the dairy program and dairy issues relating to the formulation of the 1985 farm bill. Over the past several weeks the subcommittee has heard from five regional economists who shared with us their throughts about the current dairy programs, what the program has accomplished or failed to do, and what they project will occur as a result of the implementation of the diversion program.

After that hearing several members of this subcommittee were intrigued with that testimony and the general consensus among those economists about the needed direction for dairy policy.

In the following hearing the subcommittee was provided with even further insight about the dairy program and the impacts of the diversion program. These hearings were designed to provide the members with a background about the previous dairy legislation so that when we begin to formulate the 1985 farm bill we each will fully recognize the concerns of the various interests as well as the needs of our dairy farmers.

I want to say that we have a deadline of May 15 to come up with a dairy bill. The reason that the May 15 deadline is imposed is that the Budget Committee requires all requests for budgets to be at their committee on May 15.

The Chairman of the Agriculture Committee, Mr. de la Garza of Texas has notified all of our subcommittees that he intends to act before that May 15 deadline, so this subcommittee intends to have their requests in. We intend to meet in other regions of the country and get their input with regard to dairy legislation, but we intend to come up with recommendations to the full committee by that time.

I appreciate Tim Penny and Steve Gunderson inviting the subcommittee up to this area of the country. Steve, it's nice to be in your district, and I understand, Tim, we're only across the river from yours. So it's nice to be up here and both Jim Jeffords and I appreciate the invitation.

We intend to try to come up with a dairy bill that represents the best interests of the dairy people throughout this Nation. We do not intend to implement something that would put people out of business. As long as I'm chairman of this subcommittee our intent is to try and help people, not hurt people. Mr. Jeffords.

[The prepared statement of Mr. Coelho follows:]

OPENING STATEMENT OF
HON. TONY COELHO
CHAIRMAN, SUBCOMMITTEE ON
LIVESTOCK, DAIRY, & POULTRY

The hearing will come to order.

We are meeting this morning to receive testimony from Midwest regional interests about the dairy program and dairy issues relating to the formulation of the 1985 Farm Bill. Over the past several weeks, the Subcommittee has heard from five regional economists who shared with us their thoughts about the current dairy programs, what that program has accomplished or failed to do, and what they project will occur as a result of the implementation of the diversion program. After that hearing, several members of this Subcommittee were intrigued with that testimony and the general consensus among those economists about the needed direction for dairy policy. In the following hearing, the Subcommittee was provided with even further insight about the dairy program and the impacts of the diversion program. These hearings were designed to provide the members with background about the previous dairy legislation, so that when we begin to formulate the dairy provisions in the 1985 Farm Bill we each will fully recognize the concerns of the various interests as well as the needs of our dairy farmers.

It is only right that we now further our knowledge about the impact of proposed dairy legislation in the Farm Bill by hearing from constituents of Congressman Tim Penny and Steve Gunderson. As you well know, Congressman Gunderson represents a congressional district with has the largest dairy production in this nation. I appreciate having the opportunity to join Congressman Gunderson and Congressman Penny to hear firsthand what their constituent's concerns are about the farm bill. Both of these members are extremely concerned about the impacts of the farm bill on their constituents and I look forward to the insight that we will receive from these farmers today.

I appreciate the willingness of the witnesses to testify before our Subcommittee today about their views and concerns regarding future dairy legislation. I am sure that each of us will learn from these individual's testimony and that it will assist the Subcommittee as they begin to consider such legislation. I am not going to open this hearing by telling you what the 1985 Farm Bill dairy provisions are going to look like. This hearing and the others like it are being held to find out what various regions of this nation want that bill to contain. I hope that upon the completion of these dairy hearings, each of us will have a better insight on the needs of the farmer and will begin to formulate a bill to address those needs as well as address the concerns of the consumer, the need to reduce the deficit, and respond to a variety of other interests as well.

I have continued to [illegible] to representatives of the dairy industry during the recent hearings and while speaking to various organizations such as Mid-America Dairymen and Associated Milk Producers Inc., that it is vital that they recognize each other's concerns about a dairy program, and specifically the concerns of each of the regions. As you know it wasn't until the dairy groups across the nation decided that they must unite, that a bill was finally passed during the 98th Congress. Even after the dairy industry united, they faced stiff opposition from a broad coalition which included the Cattlemen's Association, the American Farm Bureau Federation, Ice Cream Manufacturers, and consumer organizations.

This year, not only will the entire dairy industry have to be unified, but they will also have to negotiate and compete with other commodity and consumer groups in order to assure their needs are met in the 1985 Farm Bill. The challenge we face calls for not only unity among our farmers, but also for cooperation between government, consumers, and agribusiness leaders if an effective long-term policy is to be developed and implemented in the 1985 Farm Bill. The form that the 1985 Farm Bill eventually takes will have a significant impact on each and everyone in the nation. Considering that farmers account for only 2% of the total U.S. population, the voice of the needs of agriculture and our farmers could be overshadowed, unless agricultural interests are united.

The problem of increasing federal outlays to subsidize farmers is especially significant in light of the massive federal deficit. I stress to you that the dairy support program will be one of the first programs under scrutiny, and because of this scrutiny it is important that we fully review what has occurred in the dairy industry and exactly why Congress has continued to amend the provisions of the dairy support program, unlike other agricultural programs. In the 1985 Farm Bill, we should strive to establish a set of congressional guidelines which can accommodate the needs that may arise in an unforeseen or emergency situation, and thus eliminate the need for separate legislation to deal with many of the inevitable changes to come. This will avoid the "change of paddles in midstream." It is my hope that these hearings will provide us with a foundation in which dairy legislation can be based to assure that the needs of the dairy industry, of agriculture, of consumers, and of our nation are met.

Before we begin hearing from witnesses, I would like to remind everyone that it is the Subcommittee's intent that we adjourn at 1:30 this afternoon, and I intend to my best to keep us on schedule. I would ask my fellow colleagues if they have any opening statements, and welcome the first panel to join us.

OPENING STATEMENT OF HON. JAMES M. JEFFORDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VERMONT

Mr. JEFFORDS. Thank you very much, Mr. Chairman. I want to certainly say what a tremendous job you're doing getting around the country. I don't know if all of you know out there, but he flew all night from California and is flying back to California tonight, and then he's flying to Vermont the next day. So, I want to say, Mr. Chairman, that's setting an all endurance record for dedication to the job, and I certainly appreciate it, and I know that the members here do.

So, as the senior member on the subcommittee here I would say that I have enjoyed working with many Members of Congress, but two of the most outstanding ones as far as their work, and especially Steve Gunderson, who obviously being a Republican has an advantage over others, but has done just a fantastic job representing your interests in this district. And Tim Penny is also an excellent and articulate spokesman for the people of Minnesota across the river, and it's a pleasure to be able to work with them.

As we go into this year we do have some advantages in the sense that obviously our industry is in better shape than other areas of the farm economy, and the dairy diversion program, which unfortunately is too short, did place us in a position where we had credibility in Congress having done exactly what we told people we would do with the program such that when we go on the House floor this time we can say that you only gave us an opportunity to put the program the House wanted in once, and it's the only one that's worked in the last several years, so hopefully we'll have another program that, you know, will give us a chance to see it go into place. But, I must say, not because of dairy, but because of the problems in the farm area other than dairy are not at all optimistic that we'll end up with a farm bill by the end of the year, but I am hoping that at least that those of us that are involved with dairy will come out with something which will certainly not make things worse than they are, and hopefully maybe even a little bit better.

Thank you.

Mr. COELHO. Mr. Penny.

Mr. PENNY. I don't have any opening remarks except to say a few words of thanks to the chairman for traveling to our area for this hearing. Most of my farmers aren't in a position where they can come to Washington to testify and so they have to trust the leadership of their farm organization, their dairy group, or me on these issues, and this gives them a chance to come and visit with the committee members firsthand, and share with us some of their views.

And to the extent that farmers may not always agree 100 percent with the policy that's being advocated by their particular farm organization, this gives us a more firsthand and personal glimpse of what dairy farmers think ought to be included in the dairy program.

So, again thank you and the ranking minority member, Mr. Jeffords, for coming to our area, and I appreciate my colleague, Mr. Gunderson, for setting up the hearing here in his district so that we can get the Southeastern and Minnesota, and Southwestern farmers an opportunity to testify.

Mr. Coelho. Mr. Gunderson.

Mr. Gunderson. Thank you, Mr. Chairman.

Mr. Coelho. You might want to tell us some of the advantages that Mr. Jeffords was talking about.

Mr. Gunderson. About being a Republican?

Mr. Coelho. Well, I wasn't thinking of that.

Mr. Gunderson. Oh. I didn't think you wanted to filibuster this morning, so we'll drop that one.

I do want to, first of all, unanimous consent to make an official statement a part of the record rather than going into it.

Mr. Coelho. Without objection, it's fine.

OPENING STATEMENT OF HON. STEVE GUNDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Gunderson. I want to echo the words of both Mr. Penny and Mr. Jeffords in thanking you and commending you for the schedule you would put yourself through to come out here for the farmers of our area, and also make that same welcome to Mr. Jeffords. He flew in yesterday and is flying out today, and has the same kind of schedule problems. It's always easy to criticize Members of Congress and think once in a while when someone makes a super human effort to get testimony from our area we ought to say thank you at the same time.

In that regard, I would like to suggest that we probably have a special opportunity here today. This is one of only three dairy hearings across the country that will be held. The other one in Vermont on Saturday, and one in Florida next week, and so we have a special opportunity here in the Midwest in that regard.

Then we have some special challenges. The first challenge, of course, is I think we're going to have to review as a subcommittee the way in which the Department of Agriculture has decided to impose a 50-cent price cut. There's many suggestions that it's more than a 50-cent price cut by the formula they've used.

Second, we have to in short term take a look at the farm bill and try to come up with a consensus I know that you're committed to.

In the long run, however, I would hope that we don't just look at the farm bill. I think down the road with the new dairy technology coming online if we want to save family dairy production agriculture in this country I think we're going to have to do some long-term thinking about how we want to respond to that new technology in terms of our Federal Government policy.

So, the job is cut out for all of us on the committee, and in the organizations, and the individual farmers. I say "let's begin."

[The prepared statement of Mr. Gunderson follows:]

Prepared Statement of Hon. Steve Gunderson, a Representative in Congress From the State of Wisconsin

Mr. Chairman, distinguished colleagues, and guests: I would like to thank the chairman for this opportunity to welcome the Subcommittee and its staff to the largest dairy-producing congressional district in the country. A full 1/20th of all of the milk produced in the United States comes from Wisconsin's Third Congressional District. In fact, we often joke that when the Census of Agriculture is released, there is always a competition to see if we have more cows or more people in western Wisconsin.

Accordingly, Mr. Chairman, on behalf of the hundreds of dairy processing plants, the thousands of dairy farmers, and the hundreds of thousands of dairy cows in Wisconsin, I officially welcome you and our other Subcommittee colleagues to Holmen, Wisconsin and the proud traditions of the Wisconsin dairy industry.

Clearly, the dairy industry in Wisconsin has much to be proud of—not the least of which is the dairy diversion program which was literally born in the minds of many of the individuals sitting in this room today.

That producer-financed program, which expired just 10 short days ago, reduced production by 3.1 percent (the first such drop in over 5 years), cut Commodity Credit Corporation purchases of surplus dairy products by one-half, and saved over $1 billion in Federal spending on the dairy price support program in FY '84 alone.

Now, Mr. Chairman, I know that I don't have to "sing" the praises of the diversion program any further for, in two recent Subcommittee hearings in Washington, even the most severe critics of the program has to admit that it was a success.

Yet, despite this favorable report card, we cannot rest on past history. We have many significant challenges facing us—both in the short-term and in the long-run.

In the short-term, we must be concerned with the drafting of the 1985 Farm Bill and restoring profit to agriculture. Continued surplus production, of course, remains a serious impediment to a decent price for the dairy farmers efforts.

Even more current than that, however, is the need to examine the recently announced USDA purchase prices for cheese, butter, and non-fat dry milk to discover whether or not they are adequate to support the price of milk at that statutorily required level of $12.10/hundredweight. If not, we ought to seek their immediate revision.

Finally, in the long-run, we must be aware of the many and varied new technologies under current development which, if implemented, could revolutionize the industry within five years. I, for one, am preparing legislation to introduce shortly to establish an industry panel to advise the government on how best to respond to these changes when they come on line so as to make them available to the industry as a whole and, thus, preserve the family farm structure of dairy agriculture.

Quite frankly, as I survey the auditorium, Mr. Chairman, I see many, many talented individuals who have made themselves and their expertise available to us today. I look forward to their testimony and their suggestions on how we can best meet the challenges the dairy industry faces in the upcoming years.

I cannot close, however, without first commending the Chairman and thanking him for holding this Subcommittee Field Hearing in Wisconsin. Your generosity in this respect, Mr. Chairman, is deeply appreciated. Thank you again.

Mr. Coelho. Thank you, Steve. We'll have the first panel. Mr. Ausman, please start.

STATEMENT OF LA VERNE G. AUSMAN, SECRETARY, WISCONSIN DEPARTMENT OF AGRICULTURE, TRADE AND CONSUMER PROTECTION

Mr. Ausman. Mr. Chairman, and members of the subcommittee, as the secretary of the Wisconsin Department of Agriculture, Trade and Consumer Protection, I want to welcome you to Wisconsin, America's dairyland. I think it's fitting you hold one of these hearings here, and express my sincere appreciation for making this effort to come out into the country.

Some brief remarks. I think we might start with my prepared remarks. Still is a little of the history of where we are today, how we got there, you know it as well as I do.

Mr. Coelho. We'd be happy to make any prepared statement a part of the record without objection, and you can go ahead and summarize in any way you want.

Mr. Ausman. Thank you.

In 1983 we were in big trouble in the dairy industry from the standpoint of cost to Government program, and the milk production, and what was happening to it.

In 1984 with the dairy diversion programs some pretty dramatic things took place, I believe. Production was reduced 3 billion pounds, Government costs went down 40 percent, dairy farmers started a promotion program funding it themselves for research, promotion, and market development. When you look at that that's a pretty commendable record considering that the diversion program only lasted for 15 months, and had a very hurried start in the beginning which I sincerely believe impacted on the participation.

So I have to ask, what more could have been done in such a short period of time. Is what happened in a positive way in the dairy diversion program.

As I read the current goal of the Government, you want to reduce Government costs, you want a program that's market oriented, and to balance supply and demand. And when you look at what the dairy diversion program did that's exactly what it did.

What must now be recognized is that many dairy farmers are having difficulties along with the rest of the farm economy. Maybe we are better off, but when we look at the records in this State as far as debt to asset ratio, et cetera, our dairy farmers are not that much different.

Agriculture is a very capital intensive business, and maybe dairying is even more so than others because of the specialized nature and some of the equipment that we have to have that doesn't have alternative uses if there were alternatives to move to.

Considerable time is taken to develop a dairy industry, the herd and the techniques to make that work. And you're familiar with that, but I think you have to review that.

Our opportunities in the world market are limited because of the world supply, because of policies, particularly the European Economic Community, and our opportunity has to be to look at what do we do with the domestic demand, and how do we serve that.

It's been the policy of this Government since 1949 to attempt to maintain an adequate supply, domestic supply of milk. I think that's a good policy when it was started. I think it's still a good policy today.

Given that background, what direction should we go? I'd have to say I see no benefit in reducing milk prices further. By any measure the consumer is not adversely impacted by our current price. In fact, milk and dairy products are still a bargain.

The increase in consumption last year, the increased market penetration, or however you want to measure it, would indicate that the consumer understands that. The consumer is not having a problem with the price. They've reacted positively in the marketplace because last year we increased per capita consumption. Turning around a long-term trend in certain areas and not in every area.

So maintaining the current price level, and hopefully moving them up, would require some method however of supply management because we still have excess supply. We have to recognize that.

That seems to be where the controversy begins. But I believe dairy farmers now recognize that the alternative to lower income versus some production discipline is an alternative that they are willing to face. I think what happened in the diversion program is a part of that.

Certainly in my opinion standby supply and management programs such as a diversion program, or some type of that program, are a necessary part of future dairy policies.

Last fall our department conducted an extensive survey. It was not any scientific survey. In fact, we didn't go out to people. The response was voluntary. But 4,141 farmers in this State elected to return a response; 95 percent of those people were dairy farmers. And we analyzed it. It's a good reading of what our dairy farmers are saying; 62 percent believe that the dairy diversion program should be continued. At that time 30 percent disagreed; 7 percent were of no opinion.

Forty percent believe that price should not be lowered to control production; that that is not a good response, and 52 percent disagreed; 69 percent supported the continuation of a checkoff program.

Mr. COELHO. You said 52 percent disagreed on price? Is that what you said?

Mr. AUSMAN. Fifty-two percent disagreed on a fact of lowering prices, and then the balance were of no opinion.

Sixty-nine percent supported the continuation of a checkoff program for market development.

I think that's an indication of the positive nature of the dairy industry today, and I can speak a long time on that. I just get excited about the whole industry, the processors, the farmers, and everything, take a very positive attitude in this State.

What dairy farmers are really saying, I believe, is we assume responsibilities, some responsibility for managing the supply, and are willing to finance that ourselves. They are also committed to building markets.

Financial associations, State departments of agriculture meeting in Washington—the last meeting March 10 through 13—renewed its position on the 1985 farm bill; issued the following statement. It's attached to the record.

I would only say this. Forty-five States were present at that meeting and represented when we discussed this, and I would draw your attention to the part on income protection where one of the statements was made is that it should provide commodity groups access to supply of management programs if they want to use them.

I make these observations as a dairy farmer where I spent 25 years of my life, and my son is there today, and I think I'll be milking cows on the weekend. And also a secretary of the department of agriculture in this State.

The dairy diversion program I think has wider support from the dairy farmers today than it had when it was implemented or maybe even 6 months ago. Maybe that's the most important lesson we learned out of that exercise, that the industry out here has looked at it and said, "hey, this worked." And we think it has a role in long-term dairy policy, something like it.

I don't believe their support for mandatory basis. The opposition is related to the same opposition we've always had. I think there's a reason for Government to buy a fixed amount of product. The

Government has need for that product. They provide stability in the manufactured sector. Obviously that amount cannot be unlimited.

The administration of a base program which was often—pointed as difficult is very simply compared to the field crops, and now there is a precedent. It's based on pounds, you have less slippage in the program, it's easy to administer, and you've got all the records. You don't have to go out and measure anything.

The sooner we will, the better off we will be. And then don't adjust it every 12 months. Let's try to set a program and give it a chance to work. Put it in place and let it do it because, you know, our best people out here, farmers, plant operators, everything, have to make critical business decisions and it's difficult when they don't know where things are going to settle down.

While there are differences among dairymen, and we accept that, there is also, I think, a lot of agreement. If you study even the various programs put together by the various organizations, the difference is relatively limited. We're talking about fine tuning. And I haven't talked about fine points today. Let's leave that up to those professionals who can move those numbers around to make it work. But there's really not that much difference in the industry.

I won't accept the fact that the industry hasn't got their act together. I think they're very close to being together.

I think I hear them asking that they want tools, and they're willing to self-finance some of those tools to shape their destiny. That's all they're really asking for. I think that's consistent with your goals. So now let's eliminate that and establish a program. Thank you.

[The prepared statement of Mr. Ausman appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much. Mr. Donkers.

STATEMENT OF PAUL J. DONKERS, DAIRY FARMER, FARIBAULT, MN

Mr. DONKERS. Good morning. I'm Paul Donkers, a dairy farmer from Faribault, MN, and I'd like to thank this subcommittee for providing the opportunity to give us farmers a chance to express ourselves on the changes needed as part of the 1985 farm program.

Over the past 4 years there's been a number of changes in dairy policy. All these were intended to halt the increase in milk production that was taking place, and Government costs under the dairy price support program. It was not until the dairy compromise was enacted in 1983 that these goals were met, however.

I believe that this fact stands as testimony to the effectiveness of the dairy compromise, the two self-help programs that farmers have funded under the legislation for the National Dairy Promotion Program which is working to use producer funds to expand out markets on dairy milk and dairy products.

Also, the Milk Diversion Program which has just ended, reduced production, cut Government purchases of dairy products in half, and saved the Government more than $1 billion in 1984.

With a program working as well as the diversion has to reduce surplus at no cost to the taxpayers, I cannot conceive why it was not open to new producers to reduce the supply to a manageable level, or at least allow to continue after April 1 until 1985 farm legislation took effect.

I participated in the diversion program not only because it made sense for my operation, but because I felt it was the right thing to do to help to bring the industry back into balance.

There were shortcomes of the diversion program that could be met in new legislation however. Restrictions of the sale of livestock discouraged many from participating. Some of the program regulations were confusing and caused farmers to stay out due to the uncertainty.

I'm a member of the Association of Milk Producers, Inc., and serve on the cooperative's resolutions committee. In that capacity I've had the opportunity to review and discuss a number of alternatives for the dairy policy, as well as many of the other programs and problems facing the dairy industry at this present time.

At AMPI's annual meeting just 2 weeks ago the voting delegates called for a continuation of the purchase program that has been the basic price support element since the program was established in 1949. It was only a few short periods of time when some of the commodities we farmers produced were out of balance in relation to the profitability of dairy. This support system has served both producers and consumers as well.

Accompanying this should be the strong supply management that can be adopted. I feel supply management should be used when major adjustments in production are needed to maintain an effective supply demand for the farming industry.

As you well know when one or two segments of the agriculture industry is without profit, the shift is to where the profit is, and thus, will upset the supply and demand balance. For this reason we must try to write a farm bill that allows all commodities a chance at profitability.

In AMPI we have worked hard to obtain the broadest possible industry support for a unified position in the 1985 farm bill. That effort is still continued to the National Milk Producers Federation.

Imports of casein and some types of cheese not covered under the import quotas continue to add to the problems faced by dairy farmers. Not only are these costing dairy farmers his markets, they add to the cost of the Dairy Price Support Program.

Last year, casein imports were more than 192 million pounds, almost 33 million pounds higher than 1983, and 15 million pounds higher than the previous record level of 1982. The largest use and the fastest growing use of these imports is the production of imitation dairy products. This displaces domestic solids and robs the American farmer of his market. The domestic milk solids displaced must be processed into other products. In most instances this means production of nonfat dry milk which is sold to the Government under the price support program.

A USDA study determined that in 1980, the cost of the price support program was increased by $300 million by casein imports. Since that time, imports have increased their use in competing products has grown so that increased cost would be substantially greater today.

When dairy farmers are seeking to meet their industry problems in self-help programs such as promotion and diversion programs, it is inexcusable that these efforts can be offset by increased imports.

The burden of the casein imports is very clearly understood if you compare the level of Commodity Credit Corporation purchases of nonfat dry milk with the nonfat dry milk equivalent of casein imports.

In 1984 the imports were equal in terms of nonfat dry milk to 90 percent of the CCC purchases. It does illustrate the fact that these imports are making the problems we face more difficult. Steps must be taken to control these imports.

So, in conclusion, I would like to review with you these points for the 1985 farm bill.

First, I feel that you need a reasonable and profitable support level for all commodities to just maintain a level at which things can be kept at a profitable level so everybody makes at least some margin of profit so we keep a balance within the industries.

Supply management, keep the balance for domestic need and export needs.

I see no other way to bring this about other than supply management. You just must need some factor to control the supply and demand for domestic and export needs.

Second, monetary policy and export incentives that let the farm products compete fairly on the world market. There's no way we as farmers can produce commodities here at our costs and compete on the world market with imports or other foreign countries when they subsidize their agriculture to the extent they do. If you believe that we can compete against subsidized agriculture it's utterly ridiculous.

On the short term we need a bill similar to the one President Reagan vetoed to keep as many farmers on the land as possible. Many of these are in trouble due to Government action or the lack of it. If we lose these farmers the whole community also suffers.

I brought along this sheet. It was put together by the Faribault Area Vo-Tech Institute to the farm and home analysis class. They do this every year for the Chamber Argiculture Business Committee farmer/businessman luncheon, and it just basically shows 60 records of actual records that this farm and home analysis analyze every year, and then it's extrapolated out to what is called the Faribault trade area, my hometown, about 500 farm families.

If you look on the left side of the sheet you'll see what the expenditures were spent for. Custom work, and fertilizer, chemicals, and seed, labor, Government support, and taxes, utilities, capital such as rent, the interest, farm machinery, real estate purchases.

On the right-hand side of the sheet you see the actual dollars that were spent. These are actual dollars worth of business, direct costs that the farmer spent in this community. It comes out to almost $90 million. I think this is a quite large sum, so you see the importance of agriculture just to every rural community.

Further on down the page you see the personal and family spending. This is a spending for church, welfare, clothing, taxes, and other family living expenses to a grand total of nearly $100 million the Faribault trade area spends in goods and services in the town and community.

You can see what an impact that would be if an industry with $100 million payroll would all of a sudden leave town.

On the second page is probably where the real crux of the short-term problem is. It's been tossed around the figure that from 10, 20, 30 percent of the farmers who will possibly go out of business you just assume that 10 percent will go out of business. Not all farmers will go out of business, I'm sure, but if you just say 10 percent these basic assumptions here have been made.

If 50 families, or 10 percent of the farmers leave farming, 40 of these families will move out of the Faribault area to find employment elsewhere. Many of them because there is just not enough room for employment in the town. Some of them have college degrees. Not all farmers are hayseeds anymore, and will go to the bigger cities, metropolitan areas, and seek jobs there.

All the land will be farmed. I do believe that there's very little chance that most of the land won't be farmed, but it will be farmed by other farmers, larger, needing probably no extra machinery, so that this will have an impact on the local implement dealer. He will farm this with the same machinery, and probably many of his inputs, he's large enough that he won't buy from the local co-op, or the local independent businessman up and down on Main Street. He'll buy direct from some distributor. Thereby the local community will suffer.

Rent also will be a factor. Many of the landlords have already seen farmers have to renegotiate rent contracts to try and make a reasonable profit. They suffer. They have less income. They have less money to spend in the local community.

As you read on down the page further you get into the real problem, what actually double folds or triple folds itself.

This next portion of it is where the revenues really would be lost to them. As you can follow on down agri business community for repairs, and then off on the right-hand side of the column it shows a potential job loss in this area.

In other words, now, if the farmer doesn't need new equipment, or probably has better equipment, and better equipment that doesn't need repairing, the local implement dealer probably is going to have to lay off the mechanic or two, the feed supplier, lay off one or two people. And Ken Hendricks, who is a business instructor with the small business class there at the voc tech, says that from 12 to 23 percent of the gross sales are spent on wages. So if you have a gross sales of $2,370,000, and say the average income of these 14 people that would lose their jobs would be $20,000, this is the 12 percent of this 2 million.

Landowners will also lose this 20 percent reduction. Accounts payable another important thing here.

Some of these people that are leaving behind agriculture leave behind unpaid bills. They just plain don't have any money to pay them. If they lose this year the average person out of this group would have $6,521 worth of accounts payable that would be left to go onto somebody else to pay for it. The rest of us co-op members have to share the burden of losing this.

The farm implement dealer would lose over half a million dollars and would probably lay off three people. Extra labor—many of this is college students or part-time jobs through high schools. Kids would have to come out and help us bale and put in the crops and they would lose jobs.

The lenders would also lose. Over a million each. Basically this is interest that would not be paid. Somebody else has to pay this interest. Either the rest of us that are borrowing money pay a higher rate of interest, or the banks will fold and the CD's and people that have money on interest will lose.

Mr. COELHO. Mr. Donkers, you'll have to conclude your testimony.

Mr. DONKERS. Thank you.

[The attachment follows:]

Faribault Area Vo-Tech Institute
Agriculture Department 3/05/85

HOW MUCH MONEY DID THE AVERAGE FARIBAULT AREA FARMER SPEND, AND WHOM DID THEY SPEND IT WITH IN 1984

PAID TO	SPENT PER FARM	% OF EXPENSE	60 ACTUAL RECORDS	TRADE AREA* FARMERS
TO OTHER FARMERS AND AGRIBUSINESS FOR LIVESTOCK AND CUSTOM WORK	$ 11,562	6.5	$ 693,720	$ 5,781,000
TO THE AGRIBUSINESS COMMUNITY FOR FERTILIZER, CHEMICALS, SEEDS, FEEDS, REPAIRS, AND FUEL	79,133	44.3	4,747,980	39,566,500
FOR EXTRA LABOR	3,694	2.1	221,640	1,847,000
SUPPORT OF LOCAL GOVERNMENT (REAL ESTATE TAXES)	3,371	1.9	202,260	1,685,500
FOR UTILITIES (ELECTRICITY AND TELEPHONE)	4,647	2.6	278,820	2,323,500
FOR USE OF OTHER PEOPLE'S CAPITAL (INTEREST AND CASH RENT)	46,467	26.0	2,788,020	23,233,500
FARM EQUIPMENT DEALERS (POWER, MACHINERY AND EQUIPMENT)	11,791	6.6	707,460	5,895,500
REAL ESTATE PURCHASE AND IMPROVEMENTS	17,893	10.0	1,073,580	8,946,500
TOTAL FARM PURCHASES	$178,542	100	$10,712,520	$89,271,000
FAMILY SPENDING-PERSONAL (AVERAGE FAMILY SIZE OF 4)				
CHURCH & WELFARE	$ 404		$ 24,240	$ 202,000
MEDICAL CARE & HEALTH	2,938		176,280	1,469,000
RETAIL EXPENDABLES (FOOD, CLOTHING, OPERATING, ETC.)	10,030		589,380	4,911,500
RETAIL DURABLE GOODS (FURNISHINGS, EQUIPMENT, AUTO, HOME, ETC.)	3,961		237,660	1,980,500
TAXES AND OTHER DEDUCTIONS	1,852		111,120	926,000
INSURANCE & INVESTMENTS	1,674		100,440	837,000
TOTAL FAMILY SPENDING	19,818		1,189,080	9,909,000
GRAND TOTAL	$198,360		$11,901,600	$99,180,000

*500 FARMS ESTIMATED IN THE FARIBAULT TRADE AREA. (AVERAGE SIZE FARM WAS 470 ACRES IN 1984.)

THE EFFECT OF LOSING 20 OF THE [illegible] AREA FARMERS

BASIC ASSUMPTIONS

1) 20 families will be leaving the farms

2) 40 families will move out of the [illegible] area to find employment

3) All land will be farmed - but as [illegible] (wheat)
   a) Farmers that farm the land will need no additional machinery
   b) ¾ of inputs needed (fertilizer, chemicals, seed, fuel, etc.) will not be bought in this area

4) Rent will decrease by 30%

EFFECT OF LOSS OF 20 FARMS	DOLLARS LOST TO AREA	POTENTIAL JOBS LOST TO AREA
Revenue will be lost to:		
- Other farmers and business for livestock and custom work	$ 377,100	
- Agribusiness community for supplies, fertilizer, seed, chemicals, etc. (of 10% of gross value gain for wages)	1,779,257	10
- Landowners (rent lost)	135,000	
- Accounts payable (fuel, fertilizer, chemicals, etc.)	336,250	
- Farm equipment dealers - machinery sales	409,260	3
- Hired labor	100,700	5
- Lenders (average debt is $377,000 - 10% not covered by assets)	1,886,750	
- Personal spending for expendable goods (food, clothing, operating, etc.)	431,250	4
- Personal spending for durable goods (furniture, auto, home, etc.)	75,000	
- Local school district (loss 40 children @ $3,475 state aid)	135,000	2
TOTAL	$ [illegible]	24

Research has shown: 1) the farm dollar multiplies 7 times within the community
2) for every 6 farms lost, 1 business will be lost.

[illegible]

Mr. [illegible] Thank you, Mr. [illegible]. Mr. [illegible]

STATEMENT OF [illegible], PRESIDENT, [illegible] FARM BUREAU FEDERATION

Mr. [illegible] Thank you, Mr. Chairman. [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

cal purposes raise the feed and tries to attempt to make a little money raising his feed, while he converts that to milk and makes some money raising milk too. So if he is losing money on the feed he's at a real disadvantage with a large operator that really purchases all his feed.

So given that we have to admit there are some things going on in the world today that are affecting us. Quite frankly I think we're in a trade war and the only problem we have is we're not shooting back.

Somehow we've got to get onto the system of trying to get agriculture back into profit entirely rather than just worrying about one commodity or another. I think right now the timing is very important and something that ought to be considered in Washington; that is, take some of our dairy products and put them out there in the world market to compete with some of these other people at the world market prices.

Now, admittedly our Government would have to do that, but they're doing it to us and they're stealing our markets. The common agriculture policy is presently at the discussion stages of how they're going to set the prices for next year. The reason you have to use dairy prices is because those are the products that cost them the most in order to make the restitution payments to dump it on the Government, on the world market, and destroy the world market for other products.

It would also get their attention that we're no longer going to put up with this nonsense of them stealing our markets for our commodities. They've already—some people suggest they've got 50 cents to the dollar off the bushel of wheat. They've already destroyed the sugar market. The next one they'll probably start working on is our grains market, and us dairy farmers in the Upper Midwest are going to be in very serious trouble as long as we have cheap grain for someone else to buy and convert to milk.

As it relates to Japan as I saw in the news the other night we ought to just call them up and say "look, fellows, we buy it from you, you buy it from us."

We can, as farmers compete for their consumer market, because as I saw in the national news the other night, that $30 steak, we could deliver it to them substantially cheaper.

And I would encourage us not to get into the discussion of how to stop all imports because that bothers me because we as agriculture producers rely very heavily on the export market. What they need to do is get aggressive on the side of exporting more and more and try to build a demand and that's good for us as producers as well as consumers because the most efficient way for production for agriculture to operate is when you're operating it at near capacity.

But having given that we also need to have extend our blend in credits, and I think the—preference law ought to be changed or even thrown out. It makes no sense to me whatsoever for us to spend money on Government programs to try to create exports and then, in turn, allow our shipping industry to take that subsidy which really is subsidizing our shipping industry out of the USDA budget.

The other thing, of course, is the whole issue of tax laws. One of our basic problems we have in this country today is the tax laws are becoming quite candid today it's more profit loan cows is to milk cows when you farm the tax codes.

Those issues ought to be assessed in some way. I think it could be helpful if we try to resolve the Federal deficit problem because after all the underpinning of all of this is the excessive interest rates that we're all facing.

Your challenge is very difficult and tough, and we will cooperate in any manner we can to make it easier for you next year.

Mr. Coelho. Thank you, Mr. Haldeman. You make it sound difficult, and it is.

Mr. Schell.

STATEMENT OF CHARLES R. SCHELL, DAIRY FARMER, MINNEISKA, MN

Mr. Schell. With your approval, Mr. Chairman, I would like to enter my testimony as I have it written. I have two documents that I would like to enter into the record. I will summarize and elaborate on it in my oral testimony.

Mr. Coelho. Without objection it will become a part of the official record. Proceed and summarize in any way you feel.

Mr. Schell. Thank you.

I am Chuck Schell, and I'm a dairy farmer from Congressman Penny's area, southeastern Minnesota, Minneiska by name. I also serve on corporate board of directors of AMPI, and I'm also on the National Milk Producers Federation Board.

But I'm here primarily today as a dairy farmer because my living, my total income comes from milking cows. All this other stuff is incidental. It all adds and helps, and hopefully with your help I can do a little bit better at milking those cows.

I'm going to, like I said, summarize this thing, so I will abbreviate. I just want to point out that you gentlemen here were helpful in getting the diversion program in place last year, and we certainly welcome that. I just want to say that that same program has made great strides in relieving the cost on the price support program, and I'm sure you're well aware of that.

I also would like to indicate as a member of AMPI and of the corporate board particularly, that we feel very strongly that that success makes—and I want to emphasize what Paul indicated—the strongest possible standby supply management should be an important part of our program.

There could be improvement made. As you well know farmers were concerned about the restrictions on the sale of livestock in this program. In connection with the program, the rules were changed during the signup period and during the course of the program. And so the penalties and whatnot that were—and farmers don't react kindly to those sort of things because it just throws them into a kind of a quandary when those things take place.

So, I would like to make another suggestion if I might. It has been brought up that the price support even though it was announced a 50-cent drop, make allowance, whatnot, is not possible to get that out of the product. And, so, consequently, we're kind of short on that end also.

I would like to point out that the National Milk Producers Federation has been working long and hard to put together a proposal to Congress that would have the united support of all the dairy cooperatives throughout the United States.

Now, what I want to introduce is a proposal that I ask that you put in the record, and it's what we in AMPI have developed, and I strongly, personally feel I can—that the plan has merit, and I think it deserves some study as to what it really could accomplish. I, of course, won't go into all the details on it, but I would like to point out a few points if I might.

First, I think it's foolish to take milk prices down on 100 percent of our production when only 5 through 7 percent is really causing the problem. Two-tier pricing would eliminate the problem of those big payments that make headlines, big payments to single producers.

And I also would like to indicate that if two-tier pricing were in effect, we could eliminate those huge surplus buildups, because it could be initiated whenever the milk supply tended to increase. It could be initiated and keep that supply and sales in line.

In other words, if we're talking about a market-oriented price through that kind of a method, you would be able to have a true market-oriented price. And I think that's really—you talk about a price cut, we don't have any choice. Price cut comes along and that's it. You know, either you produce more units, or you go out of business.

I'd like to point out that market-oriented pricing under the present system means elimination of dairy farmers. It's really a cutthroat business, and it's kind of every man for himself sort of thing. And, boy, that is an American way. We farmers, we can scrap and fight, but our goals are always going to be to help each other. I think that's important that we keep that out there in rural America.

If you have lower returns you're going to accelerate that problem. And so in my conclusion I would like to say that production controls administered through a price cutting mechanism will destroy the family dairy farm system as we know it today.

Thank you.

[The prepared statement of Mr. Schell appears at the conclusion of the hearing.]

Mr. Coelho. Thank you, Mr. Schell.

Mr. Gunderson.

Mr. Gunderson. Thank you, Mr. Chairman. I have three quick questions, I guess.

First of all, Mr. Schell, your two-tier price program, was this adopted by the AMPI Convention last week, or did you adopt the National Milk Producers?

Mr. Schell. AMPI, the delegates were in somewhat of a quandary at our convention. They insisted that a supply management sort of a program is essential, and I think the two AMPI speakers on a program here this morning indicate that is our primary concern and our major goal.

Now, whether it means we go to a two-tier pricing like this, or whether it means some form of diversion plan like we had before, with some improvements on it, I would have to say that if we can get the dairy industry united behind that then we perhaps could support that too.

Mr. **Gunderson**. Supply management.

Mr. **Schell**. You bet you. That's what we're interested in because this cutthroat business of cutting prices to control production is going to take farmers out of business. That's all it's doing.

Mr. **Gunderson**. Mr. Haldeman, can you give us a quick summary? I appreciate your overall perspective of agriculture in that. What would you recommend, in one or two sentences, in terms of dairy policy?

Mr. **Haldeman**. One or two sentences. Well, there's no need to put periods in. Moving right along.

First of all, I think we ought to take the average all milk price, which is the last 3 years, and probably multiply that by something like 90 percent, and that would give you a price, a base price of around—it depends on where the numbers come out in the year—somewhere around 1,220 is the base, and then you can move it by percentage of that both ways. Up if Government purchases fall below 5 billion pounds. Down if it falls above the 5 billion pounds. You would probably take us at a support price this fall at about the same as what we're going to wind up with at the end of—at this fall anyhow. So it would be a continuation of that.

And then in the long term, if milk production keeps expanding, I guess we have to face the fact that some people are expanding that shouldn't be. And so, therefore, you give the Secretary some authority to move the price by a minimum amount downward. We need to scare some of these people, particularly in some of these nontraditional dairy areas, that we simply aren't going to continue to allow them to produce for Government checks, so to speak.

In the long term for dairy policy I think we ought to discuss things about—and supply management fits into this—how to divide the income protection from the pricing mechanism portions of these things.

The problem that we have with loans and price, of course, is that the benefit of the Government expenditure does not accrue to an individual. It accrues to the pound it's produced. And then when used, the equation by how much they produced to determine who gets what amount of the Government's expenditure.

So, in reality what we're doing is we're spending our money on farm programs to support that 100,000 farmers that are in the $200,000-plus gross income. Some of them are in the millions of dollars of gross income. In the dairy it isn't too hard to explain that when you take people with thousands of cows. You're getting the same amount per pound of milk produced to someone who was only milking 40 cows. And I think there's some ways that could be done in the long term.

Mr. **Gunderson**. Just one other question about the feed grain farmers in the Midwest. As secretary of agriculture in your State, give me a quick analysis of help for the dairy farmer today in Wisconsin.

Mr. **Ausman**. I guess the best way to measure it that I could think of would be to refer to our financial survey. We had extensive financial survey in March 1984. We have reviewed the figures.

We think they're valid yet today, other than they've maybe deteriorated some.

We have a debt to asset ratio average of about 34 percent. We would guess the kinds of trends we're going that may be where we are today.

We took on full-time farmers, those who have cash receipts of over $40,000, and this farm—this data traditionally has had a lot of people who have had off-farm jobs. We have industry spread throughout the State in—particularly in the eastern side.

About 55 percent of our farmers have cash receipts of under $50,000, so we'll regard that as people who have some other income. That leaves us 44 percent, or 36,000 farmers in the State, and of that group we think about 7,500 to 9,500 are in difficult or very difficult financial situations. That's about 20 percent.

We can take banker polls. You can take all the polls, but that's our—that's take our poll and the kind of figures we've been able to put together, and it seems to jibe with anyone else.

And the interesting thing we found when you look at debt-to-asset ratio, our dairy farmers have a higher debt-to-asset ratio than our livestock farmers, or our crop farmers.

Now, their ability to service debt also has been better. The record shows that, and you measure that by delinquent payment of bills, and all those things, and they seem to be able to handle that better than others, but if you really want to look at that financial situation that's about what we took.

Mr. GUNDERSON. Thank you, Mr. Chairman.

Mr. COELHO. Mr. Penny.

Mr. PENNY. Thank you. Mr. Ausman, where do you think that's going next year?

Mr. AUSMAN. Well, average dairy farmer in this State is 40 plus cows, and——

Mr. PENNY. I guess what I mean by that is what do the $11.60 price supports do then for the dairy farmer?

Mr. AUSMAN. Yeah, well, it's—traditionally we would have said April 1 we wouldn't have any real change. You take off the 50-cent assessment and you drop the price, but, in fact, it is because, depending on who you talk to, we're really dropping the price about 65 to 70 cents.

And if there is, in fact, a kick in on July 1 of another 50 cents, and you just project that, you've got 40, 50 cows on an average, and they are producing 14,000 pounds of milk, and compute it out, we're talking $45,000 reduction in income. And if you're tight when you're going into that, it's deteriorating. I cannot see anything else in the projection of feed grain prices, or anything, where we're not going to have a deteriorating situation.

Mr. PENNY. Do you in your statistics have an idea of the age of the farmers that responded to that survey, and how—if you can translate the statistics into which generation of farmers. Are we talking about those in the younger age category being in deeper financial trouble?

Mr. AUSMAN. No, it's a mix. And it's a young fellow who started out on his own somewhere between 1976 and 1981. It's a father who brought his son in and expanded between 1976 and 1981. It may be a person right in the prime of life who had a rapid expansion program for his own personal reasons, you know, of accelerating for opportunity. There's a real mix out there.

Mr. **Penny**. It all hinges on some kind of expansion when your interests were high?

Mr. **Ausman**. Well, or starting. You know, if you happen to start at the wrong time. We changed all the rules in the middle of the game. We farmed for 30 years and everything was kind of working its way up at various levels. All of a sudden you turned it around and it's going down.

Let me say this, and I had to speak to a group yesterday, in dealing with the farm program I hope—it's my opinion you cannot deal with that changing value of assets, and correct that problem, and deal with the farm program that will work at the same time. I think you ought to address that in two different ways.

The restructuring of the financing of agriculture and farm programs are two separate things, and if you try to mix them together we're going to get a farm program that nobody—that will not work. That's without getting into detail on that.

Now, I think I'd circulate it to an awful lot of Congress that my pet peeves—I know I've said it to all our congressional delegation, and I think it's relative to a long-term conservation reserve to reduce the overall plant from the standpoint of crop production—harvested acres in 13 years from 1970 to 1983 it went up 23½ percent. Nationwide they went up 19½ percent. Thirteen years, harvested acres.

We have 10-million-crop acres. We're the eighth in cash receipts in the Nation. It's like adding five Wisconsins to the system in 13 years. I think you have to take along that. I think the most economical way to deal with that is long-term conservation reserve program. Not unrelated to—I didn't talk about it today, but——

Mr. **Penny**. Paul, we have a copy of your testimony, and though you weren't able to finish your remarks, we were able to see the bottom line as to what that loss of 50 farmers to the Faribault area might mean. But do you want to take just a minute to summarize that information for the folks out here that don't have a copy of your testimony. I yield that time to you.

Mr. **Donkers**. OK, thank you, Congressman Penny.

I guess I was just about finished. But the point I was trying to make was that this was money that would actually be lost to the community, and probably the final point that I'd like to make on this, research has shown that dairy farm money that is spent in the community multiplies itself by nine times in the community. So the actual dollars lost there would have been $6½ million, or a little over. Multiplying that times nine times you can see what an effect this has.

For every six farmers that is lost there's probably going to be one business lost. With the additional 30 jobs it gets to be a sizable impact on the community, and I think that this is just important to look at. I realize this wasn't total testimony per se on the ag bill, but I just feel that you cannot separate dairy and rural communities. They're all so intertwined, so closely knitted, one hurts, all hurts.

That's, I guess, basically the point I'd like to make?

Mr. **Coelho**. Mr. Jeffords.

Mr. **Jeffords**. I would just like to make a comment. There's been considerable questions asked as to why you do not extend the diversion program. And I'd like to give you a little background on that. Those of us that had the responsibility to deal with the administration, in order to get a diversion program had to swear on a stack of reports, manuals, or claims, that we would not try to extend the diversion program in order to get the administration to sign off on it. Some of us wanted 3 years; 2 years was agreed upon within the industry, and then we finally got 15 months by the administration.

It amuses me in somewhat the discouraging sense to note that the only farm program that worked this past year the administration says, "glad that's over with. We certainly don't want that to continue and we won't do anything with it." So it's a very discouraging aspect, but I hope we can resurrect it in some manner.

But I want to thank you for your very excellent testimony.

Mr. **Coelho**. I also want to join in thanking you for your testimony. It's very helpful to us as we move around the country, and appreciate it very much.

We'll have the next panel. What we're doing here is we have tried to put a half-hour limitation on each of the panels so that we can finish the hearing by 1 o'clock. So if you note that I'm pushing you along, I am.

Mr. Huber, we're ready for your testimony.

STATEMENT OF STEWART G. HUBER, PRESIDENT, FARMERS UNION MILK MARKETING COOPERATIVE

Mr. **Huber**. Thank you, Mr. Chairman. I will try and summarize for the benefit of the subcommittee timewise as well.

Mr. **Coelho**. It's helpful to us if you submit your testimony. We'll make it a part of the record and if you'd just give us the most pertinent points of your testimony then we have a chance to ask you a few questions. It will be very helpful to us.

Mr. **Huber**. We would certainly try to accommodate that, if we might.

I should like to say that our members of our cooperative particularly want to thank your subcommittee for coming here and finding out what's going on because there's really a crisis out here.

And it's pervasive, and I think the ripple effects of it are going far beyond some hard-pressed farmers out here. The fact is that the crisis as was alluded to in the previous panel does have two faces. It's, first of all, farmers who are hard-pressed with a debt-to-asset ratio above 40 percent. Those farmers are in deep trouble.

And they're a little bit bewildered because they did what they thought the Government and their lenders, and everybody else wanted them to, expand, be in a world market, produce fence row to fence row, and they find out that market is gone.

So now to deal with that problem it looks as though we're going to have to shrink a market, or find another way to expand it. The Reagan administration has come up with its proposal, and it is suggesting that the way out is to move to something called a market-oriented agriculture.

In effect, that is saying that we're going to lower our commodity prices to world market levels, a world market, in our view at least, that's neither free nor fair, and I think even it's admitted by the administration itself, it's neither free nor fair.

It seems to me that if we're going to lower our prices even further it is exactly the wrong medicine, especially for this very sick patient, this highly leveraged farmer out here. It could bring the whole economy down in the Middle West, but also for the rest of us who may have a balance sheet that's OK now, but we think that we're in a tenuous situation where we can't exist either.

It seems to me that even with, as you alluded to earlier, that the 50-cent cut April 1 was sharper than it should have been, and we respectfully ask you to impose now on the Secretary to eliminate that second 50 cent on July 1 because he's already, as we calculated, halfway toward the 50-cent second cut that could be effected July 1. We're getting it April 1, so we think it would just be fair if we'd just eliminate that one.

Mr. COELHO. Mr. Huber, let me interrupt you at this point and tell everyone here, my colleagues, that I intend to ask our staff economist to check on those figures, and we'll also, if necessary, hold a hearing as to what the actual cut is. The law provides the 50-cent cut, and if it is 75- or 80-cent cut as some people referred to, we want to know about it. We want to be able to identify it. So we intend to go into it and determine if that's what's taking place.

Mr. HUBER. Thank you very much, Mr. Chairman. We're delighted to hear that you have taken those kinds of actions.

It seems to me then that to further cut the price is not the medicine that should be done here; that it's ironic as been mentioned by the former panel that the dairy diversion program expired, and I can appreciate Mr. Jeffords' remarks that's why that happened.

But it seems though that it's imperative now that the Congress does move with the staff to get a supply management program on the books.

When we get down to the fine tuning I guess that our organization, and our members, feel that it has to be a voluntary program, that it should be either a target price approach, or a program similar to our current diversion program.

We prefer that clearly to two-tier pricing simply because we think two-tier pricing tends to freeze production patterns; it regulates every farmer as opposed to a voluntary approach where each farmer picks and chooses whether he or she stays in the program. It also raises administrative costs excessively in our view.

So those are things that we think that we'd like to see included in a supply management program. We think further that it probably is going to have to be followed by farmers themselves, at least partially funded as the current program is, have some political and economic realities. We think that if farmers are asked to fund a program, however, that casine imports have to be restricted. They're materially interfering with our market. We also think we have to aggressively enter the world market even if we're going to play by their games.

Mr. Chairman, we appreciate the opportunity to present our views and thank you very much.

[The prepared statement of Mr. Huber appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much for your testimony, Mr. Huber.

Mr. Lunde.

STATEMENT OF DAVID C. LUNDE, DAIRY FARMER, HAYWARD, MN

Mr. LUNDE. I would like to read my testimony as I have written it. I put a lot of work into it.

Mr. COELHO. Go ahead.

Mr. LUNDE. I'm Dave Lunde. I'm a dairy farmer from Hayward, MN, in Congressman Penny's district. Congressman Penny was born not too far from my farm. So I'm well acquainted with Tim and his family.

And I too want to thank you gentlemen for the opportunity of testifying before you.

I'm also a director of Mid-America Dairymen, Inc., a dairy cooperative I'm sure you're acquainted with, with corporate offices in Springfield, MO. I currently am being on that board. I am a member of the National Milk Producers Federation.

As I go through my testimony here I want you to remember that we or I personally can support the National Milk Producers Federation position on it. There will be some other presentation of it from our group, Mid-America Dairy.

I, as a dairy farmer, support the position on this matter and hope you as a committee do understand that position. I do have some reservations about the National Milk Producers Federation's position, but I see it as a compromise in the industry, and, therefore, believe it is as good as we can come together with at this point. The fact that there has to be some form of compromise is very evident when you look at the many different types of dairy farming operations there are across the country, such as the typical California or Florida operation as compared to the typical Midwest operation.

I am a Midwest dairy farmer. I, as a director, represent a good number of Midwest dairy farmers. I believe what the administration has planned for the dairy section in the 1985 farm bill are disastrous for the Midwest dairymen, and maybe for dairymen all across this country.

Having said all of this, I would like to get a little personal at this time. I don't believe in coming before a congressional committee with a personal axe to grind, but under the circumstances, I believe it is necessary to acquaint you with a situation that prevails down on the farm. I'd have to interject that I'm sure that you are well aware of it, but I would like to get my shot at it.

I have a son in partnership with me who I brought into the operation in 1973 after he returned from the service. If he wasn't with me I would not be here. I would be too darn busy to run off to meetings, which, you know, you've heard that before too.

We formed a partnership operation in 1976, and in 1978 he and the experts, extension people, the financial institutions, USDA, a host of people selling all the good things for the future of agriculture of the 20th century in preparing ourselves for the 21st; sold me and my good wife on the idea that this was the way agriculture was going to go.

So what did we do? We spent a whole bunch of equity to double the size of the dairy operation to make room for two families. This was a fine plan at the time, but we didn't have any control or rules of the game.

My wife and I being both on the conservative side—and you fellows can read what's in parentheses there—I won't mention it—had a lot of reservations about a venture of this scope, especially my wife.

Now, I said I don't like to get into personal axe grinding, but I found that in my dealings as the director of Mid-America Dairymen, in talking with hundreds of dairymen, my situation is not unique at all. In fact, it is quite common.

Now, this is where you gentlemen come into play. In this mess we are in I would like to say that 90 percent of the farm problem is legislated, or by executive order, embargos, interest rates, imports, high dollar value in the world market. All those things. A general consensus amongst policymakers for cheap food.

You know, the cheap food policy for the public, after all, there is a very minor number of farmers that produce 70 percent of the food in this country for the bulk of the population. Therefore, I feel that the country has a more human and financial obligation to see to it that this middle group of farmers produce this 70 to 75 percent of the Nation's food to stay in operation, and for a change made a profit.

I mentioned the fact that we went into major expenditure in 1978. That all cash flowed at that time; 8¾ interest on long term; 9¾ to 10 percent on short term. As you know, the rules changed.

Today at the going interest rate it does not cash-flow at $13 milk. One economist's statement I read recently said "get ready for $10 milk prices by 1986." If Secretary Block and President Reagan get their way. He also said "get ready for $25 milk by 1990 if you survive."

Now, I happen to believe that there's a lot of truth in this economist's statement. There are few that will survive that pressure.

Gentlemen, I could go on and on here but I know I have used up my allotted time. I want to thank you for the opportunity to testify before you, and hopefully during the panel discussion some more of these issues will be clarified.

I would hope in the writing of the 1985 ag bill that all of agriculture will be impressed. We all know that cheap grain will cause overproduction of the livestocks every time.

Thank you very much.

[The prepared statement of Mr. Lunde appears at the conclusion of the hearing.]

Mr. Coelho. Thank you, Mr. Lunde. Mr. Mandelko.

STATEMENT OF DELBERT C. MANDELKO, BOARD MEMBER, NATIONAL MILK PRODUCERS FEDERATION

Mr. Mandelko. Mr. Chairman, I am Delbert Mandelko, a dairy farmer from Preston, MN. I'm a board member of the National

Milk Producers Federation and appear today to present the dairy program which has been approved by the executive committee.

Yesterday our executive board of Wisconsin Dairy met and we went through the national milk plan, and decided that we would back that.

We think it is a good plan. There may be a few things that are just a little bit what we don't want, but—the man ahead of me just said we have to get together on some things.

In panel four Herb Selbrede, chairman of our board, and also second vice president of Wisconsin Dairy, will be on, and in order to eliminate duplication on the time element I want to thank you for giving me this opportunity. I think Herb will bring out the points that I would like.

[The prepared statement of Mr. Mandelko appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much. Mr. Ziegeweid.

STATEMENT OF JAMES L. ZIEGEWEID, ASSISTANT DIRECTOR, PROCUREMENT, DAIRY DIVISION, NATIONAL FARMERS ORGANIZATION

Mr. ZIEGEWEID. Good morning, Mr. Chairman, and Congressmen Gunderson, Jeffords, and Penny. I appreciate very much that you took time out of your schedule to come out here and see the greatest dairy congressional district in the United States; something like close to 7 billion pounds of milk produced in this congressional district, and dairying is not by anything else than nature designed for this area because with the erosion problems we're not suited to cash grain farming.

In 2 years we'll celebrate 130 years of continuous farm ownership on the home farm, and it is clear to us that right now the great struggle will be between the Congress and the administration.

Congressman Bumpers from Arkansas calls it economic genocide. Senator Rudy Boswich from Minnesota says he feels betrayed that the administration is embarking on a policy to eradicate farmers, and I think that the main struggle will be between the Congress and the administration on the 1985 farm bill and the dairy program. And we want to make you aware that we support every effort that you can achieve, and we were willing to work with and for every other farmer and farm organization in this attempt so that we have this unity possible.

The administration's contention that the Federal farm program's haven't worked we feel is just a thinly veiled attempt to cover up its own intentional mismanagement of the Federal farm program in order to discredit these programs and then build support for eliminating them altogether.

And a case in point would be the 1983 PIK grain program and cotton program which was represented as a genuine supply management effort, but was more necessitated by the fact that no action had been taken in 1981 and 1982.

Then the administration showed its real colors by lack of effective supply management programs for grain and cotton in 1984, and now going into 1985, by continually using the cost of the 1983

PIK program as an example of the excessive costs and ineffectiveness of these Federal programs.

And it appears that the administration intentionally went overboard on the 1983 PIK program in order to discredit the entire system of Federal farm programs. It's all for showing its true colors to the dairy industry by its absolute refusal to consider an extension of the milk producers program regardless of what agreements were reached prior to going into that diversion program.

Their main stated objections for farm programs is its cost. And yet when a farmer financed program is successful then they say that we will under no circumstances consider that and extend it.

Although the National Farmers Organization believes that the answer to low producer prices rests in farmers' joining together to bargain collectively for their production, the National Farmers Organization also believes that the Federal Government has a responsibility to provide fairness and stability to the producers and to the industry and to the consumers for a reasonable cost to the taxpayer.

Now, we have a three point program that we feel we want fair and stable prices for farmers; we want fair and stable prices for consumers; we want reasonable cost to the taxpayers. In order to fulfill these basic needs three attributes of a main program are necessary.

One, adequate price levels for producers.

Two, adequate supply management program for the industry.

Three, some control of the imported structure.

National Farmers Organization proposes an entirely new direction in dairy price support programs. The key elements are as follows:

One, each dairy farmer establishes a base with the AFCS using the past 3 years as the base period.

Two, the Secretary of Agriculture estimates national production needed for domestic use, and national production not needed for domestic use.

Corresponding percentages are calculated for each category.

Three, dairy farmers would receive payment for milk based on a support price of $17.60 a hundredweight, or 75 percent of parity on his proportion and share of the national production needed for domestic use.

Four, dairy farmers would receive payment for milk at a price of $4.40 a hundredweight on his proportion and share of the national production not needed for domestic use.

Five, dairy plants would pay the difference between the $4.40 and the $17.60 to Commodity Credit Corporation to be used to purchase dairy products for Public Law 480 and other food for peace programs.

Six, the Secretary of Agriculture would have the discretion to adjust the percent needed for domestic use on a monthly basis so that it conforms to the actual usage.

Seven, countervailing duties would be imposed on dairy imports to bring their value up to U.S. domestic price levels.

Eight, the Federal milk order program would be maintained.

Nine, Commodity Credit Corporation purchases should be limited to products made during flush month and holiday period using the payment differentials on national production not needed for domestic use, and minor Government expenditures such as would be necessary.

Ten, a producer's base would stay with the farm.

Eleven, a program to allow new entrance into the industry would have to be developed, and we feel that would be in the area of 1 to 1½ percent of the milk supply industry to allow for new entry so that beginning farmers would have an opportunity to get started.

In the event where a farmer would buy an existing farmer out, of course, that would be a maintained base thing as it happened.

Hauling subsidies, other costs paid by the plant, and patronage dividends should be considered as payment and calculation of the Minnesota-Wisconsin series price.

Cost of production adjustments to the $17.60 hundredweight support price on national production needed for domestic use should be calculated in using the factors proposed by National Milk Producers Federation in their dairy pricing index.

By implementing this program national production can be matched to the U.S. domestic use at little or no cost to taxpayers. Dairy producers would receive fair and stable prices, and the dairy industry would return to family farm structure, which has served us so well in the past.

I appreciate again the fact that you took this time to come to Wisconsin. I hope you enjoy the brief stay that you're having. If you have any questions I'll try to answer them.

[The prepared statement of Mr. Ziegeweid appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much. Mr. Penny.

Mr. PENNY. Mr. Huber, in your testimony you talked about the deficiency payment system. Similar to that, made available for other commodities.

Do you want to elaborate on where you think we ought to set that target price and at what level we ought to cap that deficiency payment?

Mr. HUBER. First of all, I'm going to say that deficiency payments might be one of the options. They're not necessarily our first choice. We do think that the current program has had so much success that we might pattern something in that regard. But we would not be opposed to using target prices as an alternative simply because target prices are probably more compatible with other commodites than the current purchase program.

There is one thing about target prices that you can argue favorably for, and that is that consumers would not think twice—want some higher prices, and again, higher taxes if, indeed, we use the tax program as financing it.

Now, to get down to the numbers, I prefer at this point not to speak to that issue, and I'm not trying to duck it, Mr. Penny. I appreciate it, but our people are working up some numbers for that particular approach, and we'll be glad to supply you with them a little later.

Mr. PENNY. We appreciate that. Thank you, Mr. Huber.

Dave, where do we need to set price protection for someone like yourself that brought a son into the operation based on good advice, and based on assumptions that look like they would pay off at the time, because you're not the only one. I mean, when we listen to testimony from the secretary of agriculture here in Wisconsin he indicated that a good share of folks that are in a financial bind are the new people that came into the business recently, or those who expanded to take in a son or a daughter.

So there are a lot of folks in the same boat you are, and what kind of price protection do you offer?

Mr. LUNDE. Congressman Penny, it's hard to put a number on it. There are so many factors that it depends on interest rates. If some of these young fellows can get their interest rates down, and that sort of thing. But, like I mentioned in my statement that the thing does not cash-flow at $13 a hundred right now. No use kidding yourself.

In order to establish a price that would do it, it will vary. But I think there is a number there someplace that you fellows, and we in the industry are going to have to come up with that is something that would save these guys. There's an awful lot of young fellows. And I live in an area where there's quite a bit of—other than dairy farming. You know that, Tim, as well as I do. That's kind of discouraging the Dairy Belt there. There's a lot of good hog operations; good grain farming operations. Just going belly-up right and left.

And in my statement that I make that I would hope that all agriculture is addressed too. I'm basically a dairy farmer, but this free market they're talking about is the biggest joke I've ever heard. There is no free market. We're the only country in the world that really does not have a food policy when you get down to it. I'm sorry I got off the subject.

Mr. PENNY. I notice in your testimony, the last line, the one you didn't read, dealt with your concern about dealing with the budget issue as well.

Mr. LUNDE. Right.

Mr. PENNY. I think that gets at markets, and it also gets at interest costs, but with the deficit being so high it's having an effect on interest rates. It is pushing them up. It is keeping the value of the dollar higher it otherwise would be. And so those are some other factors that we have to be concerned with as legislators from a farm district.

What are you going to do with the $11.50 price support coming down the pike? How are you going to make that up?

Mr. LUNDE. Well, he is just freshening a whole bunch of heifers now. By the way, I was a pusher for the diversion program, and we were in the diversion program.

These fellows have to look to cash-flow. That's the only thing the banks want to talk about is cash-flow. Hopefully we can hold a production level at some point where it's only the very best cows.

I think we and a lot of dairymen have learned a lesson by the diversion plan. We want good cows. So we're going to have to be better management to people on the side of making sure that that cow is a nutrition cow. A 15,000 pound herd average isn't going to scour even at $11.60. We're going to have to be talking about even greater than that.

So you kind of have a catch-22 before you get done there. You get to chasing your tail. And my remark on the grain trade, that cheap grain, it will mess up the livestock industry every time, and it's done it for years. So we got to get this grain moved. The hog complex is going to go the same route. You know that, Tim. We've had many a good hog operator in my area.

Well, excuse me for rambling.

Mr. **Penny**. Do you sort of feel double-crossed after having participated in the program to get the surplus down that now you're being penalized with a price support cut?

You know, a farmer in good faith got into that program must really feel like they got stabbed in the back.

Mr. **Lunde**. One of the things that surprised me and I just had it explained to me within the last week, on this 6½ cents on cheese, 50 cents a hundred, the way that Mr. Huber here explained it. Congressman Coelho you asked a question. It is kind of a sneaky little punch in there, I think, because that equated to the 60, 65 cents on the cheese side. I think the diversion program worked real good.

I heard a statement by the majority leader in the Senate here not too long ago. He said it was so terrible the cows were even laughing about it. Well, with friends like that who needs enemies when you get right down to it.

Mr. **Penny**. I might just say, Mr. Lunde, that we're asking questions about the $11.60, but I think we all ought to be cognizant of the fact that the administration has gone ahead and imposed the 50 cents. They're going to impose the other 50 cents on July 1. If they do 75 cents per time, not 50 cents we're really in trouble.

But what are you going to do at $11.10?

Mr. **Lunde**. There is very few that can survive that price. It isn't in the cards That's my personal opinion. Maybe some of these other fellows here too.

We've taken more than the 50-cent cut because basically most of this milk goes to cheese, the surplus milk. A lot of us get a lot of our milk into the class I, but in Minnesota we got about a 14- to 17-percent utilization, so it's got to go into manufactured products.

And when that tilt is put on there against cheese the way it is now, we in Mid-America Dairymen think it's kind of a sneaky little deal.

Maybe you can use that as a leverage. You've already dumped this thing more than you said you were because it's going to equate to more than 50 cents a hundred.

So maybe you can use that. I would hope you could, sir.

Mr. **Penny**. We intend to do something about it, but we do appreciate your comment.

Mr. **Coelho**. Mr. Gunderson.

Mr. **Gunderson**. Thank you, Mr. Chairman. Two quick questions.

Jim, do you feel the blend price would be, in your recommendation, $17.60 for domestic milk; $4.40 I think you recommended for world price? Did you calculate—price would be?

Mr. **Ziegeweid**. Depending on what the impact you had on your series with your exchange markets I would estimate that to be in the area of about $15.50, $16.

Mr. **Gunderson**. $15.50?

Mr. **Ziegeweid**. Yes.

Mr. **Gunderson**. OK. Stew, I just wanted to ask you your comments in regard to this price-cut thing. I'm sure you're concerned, and I appreciate the chairman's commitment that we will take a good look at this in Washington.

I think at a minimum if we can't get this first one changed we better let them know they better not try again on July 1.

Mr. **Huber**. Thanks, Steve.

Mr. **Gunderson**. Thank you, Mr. Chairman.

Mr. **Coelho**. I appreciate the panel's discussion and participation. We're ready for panel three. We're staying close to schedule and that's very helpful to us.

Mr. Rosen, we're ready for your testimony.

STATEMENT OF LELAND MULDER, PRESIDENT, WISCONSIN FARMERS UNION, PRESENTED BY DENNIS A. ROSEN, VICE PRESIDENT

Mr. **Rosen**. Thank you, Mr. Chairman, and members of the subcommittee. First of all, I have to say that I'm not Lee Mulder, as probably many of you know. Lee had a problem with his voice today and living here in Holmen he feels very bad about it, and, believe me, I do too. I'd just as soon he was here.

Kind of reminds me of a story—and he's in the audience—reminds me of a story of a new priest that moved in a community. He had a knock on his door one night and it was a young gentleman who was there, and he reached in his pocket, got out some change, and gave it to the priest. And the priest said: "Well, you know, why don't you come to church on Sunday morning and put it in the collection plate."

Well, he said, "I don't want the church to have it. I want you to have it."

And he said, "well, why is that? Do you think I need it worse than the church does?" And he said, "yes, I do." He said, "I overheard my mom talking and she said you're the poorest priest we've ever had." Well, I'll probably be the poorest speaker today.

Mr. **Coelho**. No you won't. Go right ahead.

Mr. **Rosen**. The U.S. Agriculture Secretary, John Block paid a visit to Wisconsin dairy farmers on March 29. Followed that by dropping the price support 3 days later.

We certainly hope and trust the subcommittee will leave a more positive reminder of its visit to America's dairyland.

When we heard that Secretary Block was coming to Wisconsin we felt that there was an outside chance that he might use the occasion to announce the extension of the dairy diversion program. He not only came four square against it, the paid diversion program, but also up against any long range price support programs for dairying.

In the past 2 months the Wisconsin Farmers Union, Farmers Union Milk Marketing Cooperative, the National Farmers Union, have taken official position recommending the continuation of the dairy diversion program. Even before the delegates of the respective annual meetings of their organizations came out in the extension of the dairy diversion program the farmers union leadership was all ready pointing out the successes of the program and urging its continuation.

The delegation at the national convention not only supports supply management for milk, but two major—five other areas.

First, was the major reduction in the current import levels of foreign subsidized casein that's costing American taxpayers $600 million a year.

Second, the acceleration of the market order consolidations for the purpose of achieving a more uniform price to milk producers.

Third, the State and Federal legislation to adopt component pricing of milk.

Fourth, increasing funding to the school milk program.

Fifth, a pilot program for consumer discount coupons for low- and moderate-income families.

After telling the farmers in Green Bay that the Reagan administration wouldn't continue the dairy diversion program, Secretary Block said that Wisconsin was split on the issue. I think Mr. Osmond has covered that and told you. My personal feeling is I was there in Green Bay, and I don't know what—two Republican people on the subcommittee think but maybe one of them is in line for the Secretary of Agriculture. I think there's possibly a need——

Mr. **Coelho**. I wouldn't mind it if either one of them would be.

Mr. **Gunderson**. I wouldn't want it.

Mr. **Rosen**. I can't help but think—it would have to be—one of you would be better, and certainly than the President.

Now, when the President of our country gets up and states we should export farmers and keep the wheat, it kind of gives you a solemn feeling as a farmer.

I have seen a one-liner too that said we ought to keep the missiles and launch Reagan.

I feel that being in Green Bay that day that there was a stronger consensus than 60 percent for the continuation of the dairy diversion program, especially after April 1.

The administration's attitude toward a market-oriented approach only means one thing, lower prices. Our board, their attitude they want to phaseout dairy price supports by 1988, and usher in a deficiency program that targets to only a portion of dairy producers, and the price support that would be geared in anticipation of Government purchases, and you're looking at about $10 a hundred.

You said it's true, we're going to lose dairymen. Secretary Block said it at Green Bay. But we're going to lose dairymen anyway. And the thing he said is, "If we raise the price or keep it at an unrealistic level, then we're going to have Government controls. And I don't believe the answer is Government in agriculture," he said.

I think the majority of the Wisconsin dairymen according to the survey are opposed to using dairy price support levels as Secretary Block is doing in an attempt to control production, and I think it's been mentioned here.

I think everybody realizes that dairy farmer failures will multiply with lower prices and the remaining dairy farmers are going to have to increase production in the short run.

I was in the dairy diversion program. I went in 25 percent. I ended at a 25.4-percent reduction and now am in the process of gearing back up. I have to.

I agree with Representative Gunderson as he told the members of the Farmers Union Milk Marketing Cooperative in February, and I quote, "the administration wants to go to a free market in dairy, but the fact is there is no free market in agriculture." To that statement we would add that as long as there is no free market in agriculture it is an insult to the intelligence of the American farmer to talk about not having Government involved in agriculture as Secretary Block did in Green Bay.

We have not heard the term bargaining power used for a long time in discussions of farm policy, but the fact remains as long as farmers are price takers and not price setters in a largely administered economy, then we must look to Government to furnish some power in the marketplace.

We believe we are stating a fundamental economic principle here while Secretary Block has only expressed the administration's political ideology of repeating an old conservative saying.

There is a widespread agreement that another 50-cent price cut on July 1 would severely tighten the price-cost squeeze on dairy farmers. And there's, I'm sure, many different statistics and different economists have proven.

In Wisconsin that means 25 percent of the dairy farmers, over 42,400, would be forced out of business.

Mr. Gunderson, you also told the conference of CENEX Co-op managers last fall that American agriculture faces its greatest challenge ever as Congress writes the 1985 farm bill. You continued by saying we must meet that challenge with a program that is creative, consistent, and fiscally conservative or the historic cooperation between the farmers and their Government may be destroyed.

We too believe that the historic cooperation between farmers and the Government must be preserved. But we also believe that the historic partnership can be destroyed in the name of fiscal conservatism.

The mood of the Wisconsin farmers is that we need to be more conservative in the Pentagon, and more conservative in the responsibility of the White House and Congress.

The $1.5 billion that the Congress approved for the 21 MX missiles would have paid for the dairy price support program in 1984. And also it could have paid for the emergency farm credit bill that was vetoed by Mr. Reagan.

I can't help but think in some way—a lot of people think the farmers are the only ones in trouble. Believe me, rural America is in trouble. Sales in local communities are down 41 percent. And the large cities will follow, and you know why as well as I do. Seventy percent of all the new wealth, the renewable wealth in this country—is generated from agriculture.

Last Sunday when I was in church I looked around at the young farmers' families and I had a feeling they were probably praying for time because that's what they need to keep their dream alive, that they want to help feed a hungry world and a hungry America.

I can't help but feel this administration, especially on comments that the President makes, wants that dream to disappear.

Thank you.

[The prepared statement of Mr. Mulder appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Mr. Rosen. Mary Jane Nelson.

STATEMENT OF MARY JANE NELSON, FARMER, HOLMEN, WI

Mrs. NELSON. Thank you. My name is Mary Jane Nelson, and my husband Bob and I are dairy farmers just about a mile east from where you're sitting right now.

We have two teenage daughters and the majority of our income does come from the operation of our 75-cow, 350-acre farm. We are your typical Wisconsin farm really.

Six months ago I was offered a position with our local bank and for the first time in 20 years of marriage and 20 years of farming I returned to the work force full-time, partially for the challenge, but primarily for the additional income.

I look in the area of new business development, but also do loans, and that includes agricultural lending.

I thank you for the opportunity to present my views on the 1985 farm bill and related issues. And I commend you for your foresight in coming to the agriculture community for ideas, views, concerns of the American farmer.

The 1985 farm bill will be one of the most important pieces, if not the most important piece of legislation in this decade for rural America.

That legislation will also have a tremendous effect on our counterparts in the cities and suburbs, as well as the rest of the world when it comes to addressing the needs of the food policy and food production.

I think that now more than ever this is the time for analysis not emotions, fact not fiction, and reality not rhetoric.

It's interesting to look back on the history and the track record of the farm programs. While Congress has been passing the farm bill since 1933 to "stablize prices," and "save the family farm," the number of farmers has gone steadily downward.

At the same time a number of Federal employees working to "save farmers," has increased dramatically from 24,400 employees in 1929 to 122,600 in 1982. It is obvious that major changes are needed.

One important lesson I hope you have all learned is that we cannot store our way into prosperity. Witness the current plight of the western wheat grower, or our own dairy farmers. We must produce for a market, not Government storehouses.

Farmers and agribusiness have invested heavily in production and other facilities to serve the world markets. It has paid good returns in the past, and it can in the future, if farm policy is shaped to serve export markets. We cannot continue to be the residual supplier on the world market and expect to return a profit to hard working farm families.

First and foremost, any new farm program legislation must aggressively seek export markets and gain back traditional markets taken from us through export subsidies by competing nations and our own folly of export embargos.

Expanded exports will help Midwest dairy farmers and livestock producers as much as cash crop farmers.

I do not believe that the 1985 farm bill should be simply a collection of self-interest commodity programs pitted against each other. As a dairy producer I would like to make a few brief comments specifically on the dairy program.

We in the dairy industry face a difficult dilemma. As I said earlier, we must produce for a market, not Government storehouses. The cause of the dairy problem is fairly simple, the guarantee was pushed too high and capital came pouring in to expand dairy production. Instead of a floor, it became the ceiling, and now the Government is the pricemaker. Who is to blame really doesn't matter. What matters is how to get out of this dilemma.

The milk diversion program has reduced the Commodity Credit Corporation's purchases, and it has also reduced production. Dynamic, innovative new advertising has increased the consumption of dairy products. The advertising will continue to be an important part of consumption. The dairy producers of this Nation have paid for these two programs, but as of last week that milk diversion program came to a sudden halt.

One area not yet addressed but of vital importance to continue the increase of consumption is the product development area efforts. Somehow we as producers have got to get to the other end of the pipeline to encourage the milk handlers and distributors to increase their efforts in this area.

Market expansion is also a part of our responsibility as producers, but we have to put our trust and confidence in our cooperatives that purchase our product and in those we elect to your positions that have the expertise, the authority, and the ability to negotiate with these foreign markets so very necessary to our livelihood.

We have a high quality nutritious product to sell, and we can do a much better job of marketing our products. Some day, hopefully in the not too distant future, when supply demand has been brought back into line, I believe that most farmers will agree that we need to depend less on Government price support programs and return to a more market oriented system of determining the price of milk. We need to explore all the viable alternatives that would help us down the path towards this goal.

But as we head in this direction, we must also do all we can to minimize any undue hardships on farm families as we go through this difficult period of adjustment.

In summary, when it comes to writing the 1985 farm bill these are my general thoughts. Government farm programs have so far done little to stem the tide against farm families. We need new directions. We cannot store ourselves into prosperity. Farm programs that aggressively seek export expansion are essential if farming is to become profitable.

We in the dairy business have a serious problem. Hopefully, we can get supply back in line with demand by cutting back production and promoting increased consumption. Once that has been accomplished, we need to move the Government to the back seat and the marketplace to the driver's seat in determining prices so that this does not happen again. We need to explore all the options available.

And one last issue of equal or maybe even more importance to many farmers is the relatively high interest rates. Daily I hear this question. Why are the interest rates so high, and when will they go down again? From my position as a lender, and as an active dairy producer, I truly wish I could give these borrowers, who also happen to be my neighbors, an answer other than we have to get Congress to get spending under control in order to balance the budget.

Unless this happens, Congress' actions will continue to do more to destabilize agriculture that then can be offset by any conceivable farm program no matter how well designed. Most farmers will agree that restraining Federal spending, including spending on farm programs, should be a top priority.

Thank you for visiting my community and for considering my thoughts.

Mr. **Coelho**. Thank you, Mrs. Nelson. I'll have some questions for you later.

Mr. Pedersen.

STATEMENT OF ROBERT S. PEDERSEN, CHAIRMAN, NORTHERN DIVISION, MID-AMERICA DAIRYMEN, INC.

Mr. **Pedersen**. My name is Bob Pedersen from Webster, MN, from Tim Penny's district. I appreciate the opportunity to come before this subcommittee.

I am representing the position of Mid-America Dairymen, chairman of the northern division, and I'm a delegate of the National Milk Producers. You have my prepared statement so I will briefly summarize.

Mr. **Coelho**. We'll make your prepared statement a part of the record.

Mr. **Pedersen**. Yes.

The milk diversion program and the advertising and promotion program authorized by the Dairy and Tobacco Adjustment Act of 1983 have gone a long way toward balancing the supply and demand situation for milk and dairy products. CCC purchases have been cut in half. The cost of the purchase program has been reduced by more than $1 billion, and the milk diversion program has been financed and paid for by the dairy farmers. It has been a successful self-help program; however, the supply and demand imbalance is not totally solved. We still have more resources in the production of milk today than are needed to meet the demand for milk and dairy products. Our projections for the supply and utilization for the current year indicate that the net CCC purchases may still reach about 8 billion pounds milk equivalent.

Mid-Am recognizes that further steps must be taken to bring the supply and demand into closer balance. We hope to bring about this necessary reduction in the surplus without destroying the dairy industry in the process.

We believe that National Milk Producers Federation's four program objectives should be used in the development of the program for the 1985 farm bill. It would bring a balanced supply and demand. These objectives are:

First, to assure an adequate supply of pure wholesome milk for domestic consumption.

Second, to stabilize prices, but only to the degree that in the long run, market prices are allowed to adjust the resources in milk production to the demand for milk and dairy products.

Third, to encourage market growth and a consumption of milk and dairy products.

Fourth, to provide for standby authority for use of an incentive-penalty program when substantial adjustments in supplies are necessary.

Specifically, Mid-America supports National Milk Producers incentive program which contains the following principles:

If Government purchases are estimated below 5 billion pounds, there will be no assessments and no diversion program. If purchases are estimated between 5 and 7 billion pounds, the Secretary shall have the discretion of implementing a diversion program coupled with the assessment, and if Government purchases are estimated greater than 7 billion pounds, the Secretary shall institute an assessment and a diversion program. The base period shall be the 12-month period ending June 30, immediately prior to the announcement of the program implementation.

For those deciding to participate, contracts shall be signed for reductions of between 5 and 30 percent of their base; $10 per hundredweight will be made for the reduction.

If the participation level is such that a deficit would be projected, the Secretary shall have the discretion to adjust all contracts equally. Bases of participants in the 1984, 1985 milk diversion program will be adjusted.

The Secretary shall have a discretion to adjust all contracts after assessing the possible impact of this program on other commodities. There shall be no limitation on individual payments under this program.

These are other programs that we firmly support and Mid-America Dairymen also strongly support continuation of the following programs:

The Federal Marketing Order Program authorized by the Agricultural Marketing Agreement of 1937 with permanent extension of authority for base-excess and Louisville plans.

We also support authority under the act for marketwide service payments; continuation of the dairy indemnity, and continuation of authority contained in section 202 of the Agricultural Act of 1947 for transfer of dairy products to military and veterans' hospitals.

An expansion of nutrition assistance programs in those categories that do not impact adversely commercial sales.

A continuation of import controls on foreign dairy products and the expansion of quotas to include casein and whey protein products.

Thank you.

[The prepared statement of Mr. Pedersen appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very much.

Mr. Gunderson.

Mr. GUNDERSON. No questions, Mr. Chairman.

Mr. COELHO. Mr. Penny.

Mr. PENNY. I have a question for Mrs. Nelson.

Were you in the dairy diversion program?

Mrs. NELSON. No, sir, we were not.

Mr. PENNY. OK. What were the factors in your particular operation that made it unattractive for you to get involved in that program?

Mrs. NELSON. When we cash forwarded to get it out. We could not afford it because we had just increased our herd before the program went into effect. We had another man in business with us at the time and had bought some cattle, and to meet the payments. We were not able to——

Mr. PENNY. Did you buy equipment as well as cattle?

Mrs. NELSON. We just bought some cows. Poor timing.

Mr. PENNY. Bob, yesterday one of our Senators, Mr. Durenburger, said that he hoped Congress would pass a farm bill this year and thought we should just extend current farm programs; not revert back to 1949, but extend current farm programs for another year because he thought that was maybe the best we could accomplish anyhow.

Where are we at if we just extend the current farm program and maybe with $11.60 price support?

Mr. PEDERSEN. I really don't know how it would affect, but I would venture to say we probably will wind up with Senator Durenburger saying we will not have a farm bill. I guess it probably will be somewhat business as usual, but there are a lot of other things in the country that need to be addressed that will go by the wayside if we don't do something now. You know, there will be some people that could be helped.

Mr. PENNY. What are some of the markets we might be able to develop with an improved marketing motion program?

Mr. PEDERSEN. Well, we have the National Dairy Promotion Board in place. I really think that they have been doing some studies, and they have shown increased consumption. I don't think we'll be able to consume ourselves out of the problem because the whole agriculture industry is what is sick, and as some of our other people alluded to the fact that our cheap grain is going to produce a lot of cheap milk, and cheap beef, and whatever, and until we can do something with it, or not produce it, one or the other, it has to be about that simple.

Mr. PENNY. Mrs. Nelson, do you want to respond to that as well, because you put a lot of focus in your testimony on doing a better job of marketing, promoting our farm products, developing new product lines? What are some of the ideas that you and folks in your particular dairy organization are looking for?

Mrs. NELSON. I'm sorry, Mr. Penny, but I do not agree with my dairy organization, and I sell to AMPI. They sell a majority of their product to the Government, and I keep asking the question: "What are we doing to develop new products? What are we doing to market this product?" I get no answers.

And what Mr. Pedersen has said really his proposal is asking for more Government intervention when we ask for bases. We are not getting the Government out of farming and it's going to hurt us.

We can't do it tomorrow, just cut the price supports. We've got to get supply and demand into line, and it cannot be done overnight. It's got to work down the road.

You know, what's good for the co-op, and they're working at full capacity, they're most efficient is not necessarily good for the farmer because we keep producing, and keep producing to put that co-op at full capacity, that handler. But then where it goes from there is right into the hands of the Government, and that's a big part of our problem, gentlemen. I'm really sorry to say that, but there's a lot of truth in there, and we as dairymen have to realize this.

Mr. PENNY. I don't have any further questions.

Mr. PEDERSEN. Well, if I could rebuttal just a moment.

The basis of the co-op is to market the product to the best of ability and I quote, this is why they get in the position such as you're alluding to. I mean, we have the same—Mid-Am does have some of the same problems as AMPI. We do market considerable to the Government.

But also we do handle—if it's a large volume we do many other things.

Mr. COELHO. Mr. Pedersen, let me ask a question. I get a kick about these comments about a co-op.

Is the co-op made up of farmers or nonfarmers?

Mr. PEDERSEN. All farmers.

Mr. COELHO. Do you think that in the co-op the management of the co-op is decided upon by farmers?

Mr. PEDERSEN. We would really hope so.

Mr. COELHO. Do co-ops make decisions basically in the best interests of those farmers that are members of their co-ops, or do they make it in the best interest of the management?

Mr. PEDERSEN. I think usually in the long-term for the benefit of the farmer. That's what the co-op is constructed for.

Mr. COELHO. If the farmers don't like the decisions that are made can they change the manager?

Mr. PEDERSEN. Yes, that has been done.

Mr. COELHO. Well, I think it's important for the record.

Mr. PEDERSEN. Yes.

Mr. COELHO. I always get intrigued about co-ops—the implications are made by people that they are not farmers.

Mr. Gunderson.

Mr. GUNDERSON. Yes, I'd like to ask you a question if I could.

I appreciate your comments about the marketing orders, and some of these things. We need to look at them on the run.

But you indicate in your recommendations No. 5, pilot program of consumer discount coupons to low to moderate income families. That's one of the new ideas we've heard. Can you expand on exactly what you're talking about?

Mr. ROSEN. I'm probably not the person that should be doing the explaining, but I think basically what it does is it gets the dairy products out in place of like food stamps or some other means of which somehow this would direct the product—the product would be direct. It would——

Mr. GUNDERSON. You're saying a circumstance similar to a food stamp?

Mr. Rosen. I guess so, from my knowledge.

Mr. Gunderson. Fine. Thank you, Mr. Chairman.

Mr. Coelho. Mrs. Nelson, I'm particularly intrigued with your statement on the top of page 6 where you say we have to get Congress to get spending under control in order to balance the budget. You are concerned about deficits which most of us are, and as someone who is in the lending business I assume you are—you can see it from both ends.

I'm intrigued in why you say that it is important to get the Congress to get spending under control. Do you feel that the executive has any authority, or responsibility here, or is this something that you feel very strongly about?

Mrs. Nelson. I guess I feel that you've got to work together in Washington, and it is a part of the administration's as well as yours. But the majority of our laws are—it's you gentlemen that make those laws, and make the budget.

Mr. Coelho. Well, I appreciate that. I always find that intriguing because this is a traditional or typical rhetoric line.

I was intrigued with your comments earlier, and I circled them, and I intend to use them where you said "now this is a time for analysis not emotion, fact not fiction, reality not rhetoric." And this comment on page 6 has a little more to do with rhetoric than fact, and I just wanted to point out that we start off with a point of view that the Congress has not approved a budget, and I've only been around there now 20 years as a staffer and as a Member, that exceeds the total amount requested by the President.

But also a President has one tool that is a very wicked tool if he wants to use it. He's used it rather successfully just recently in regards to the farm debt crisis, and our ability, and our attempts, and our interests to try to do something to help out farmers. He felt that it was a budget buster, and he vetoed the farm bill.

This President could use a veto very successfully to bring budgets into balance.

Also, all Presidents, Democrats or Republicans, can submit a balanced budget if they want. Nobody requires them to submit something to the Congress that is unbalanced.

Second, as someone who is involved in organizations I think you would agree that the executive, or the administrator, or the president of any organization, be it the Federal Government, be it the local PTA, that that person sets the tone, and that if the tone is for deficit spending then you operate from that tone. And our problem is today that we're operating from the tone of deficit, and we need to turn that around, and I don't see where we in the Government should spend more than we have and we're spending a lot more than we have.

And so I just want to make sure that your point which you clarified I accept. There's enough blame to go around for everybody. The Congress and the administration have to work together, and so I'm glad to see that you amended your statement there.

Mrs. Nelson. After I submitted my testimony and reviewed it I discovered that I probably should have reworded that, but John assured me that he would understand. Thank you.

Mr. Coelho. Thank you very much. I appreciate the panel.

We're ready for the next panel.

Mr. Alberts, we're ready for your testimony.

STATEMENT OF MYRON L. ALBERTS, MEMBER, BOARD OF DIRECTORS, LAND O'LAKES

Mr. Alberts. Thank you. My name is Myron Alberts. I'm from Pine Lake, MN. I operate a large dairy farm in partnership with my brother and his three sons.

I am a member of the Land O'Lakes board, and serve as a director on the Land O'Lakes organization.

Also I represent Land O'Lakes as a director on the National Milk Producers Federation Board.

Since early last fall the Land O'Lakes board and its membership has been discussing policy ideas for the dairy provisions of the 1985 farm bill.

At our annual meeting held at the end of February we adopted a resolution that presents our ideas on program features that should be adopted. You have all received a copy of that resolution as it is attached to my testimony.

I'm going to shorten my presentation considerably here. I would just like to mention six points that Land O'Lakes feels should be part of the 1985 farm bill.

Land O'Lakes feels that we should continue the Federal Dairy Price Support Program. I have much more detailed material after that but I'll just go on to No. 2.

We think the 1985 farm bill should establish a support price on the basis of an economic index that specifically recognizes factors that influence dairy production.

It should provide an adjustment to the support price to reflect the changes in the supply and the demand.

It should include provisions to assure adequate and equitable income for dairy farmers and that would be rather difficult to define.

It should apply the dairy price support program uniformly across the Nation.

It should avoid adoption of marketing quotas and production bases.

It should maintain programs that are designed to increase the per capita consumption of dairy products.

And finally, in the absence of a new long-range program by October 1985, perhaps the present program should be continued.

Now I will conclude my remarks by reading a resolution that was passed at the February meeting—the annual meeting of the Land O'Lakes by some 4,000 members in attendance.

That resolution on dairy legislation reads "we favor the continuation of a Federal Dairy Price Support Program." The program should support milk prices by removing surplus butter, cheese, and nonfat dry milk from market through the purchases by the Commodity Credit Corporation.

Support prices should be set using an index that specifically recognizes factors in dairy production and includes an adjustment for changes in supply and demand.

It also should include provisions to assure adequate and equitable income to dairy farmers.

The resolution goes on. We oppose any regional differences in applying dairy price support program.

We also oppose program proposals that involve quotas on marketing and production bases except as may be needed in an extreme supply imbalance.

And we continue to favor programs that increase the per capita consumption of dairy products through the commercial channels.

I shortened my testimony considerably, but thank you for giving me the opportunity.

[The prepared statement of Mr. Alberts appears at the conclusion of the hearing.]

Mr. COELHO. We appreciate that very much, Mr. Alberts. Mr. Johnson.

STATEMENT OF ROBERT JOHNSON, DAIRY FARMER, MONDOVI, WI

Mr. JOHNSON. Gentlemen of the subcommittee, my name is Bob Johnson. I'm a dairy farmer from Mondovi, WI, which just happens to be in Steve Gunderson's district.

I was not on the regular panel here. As you notice my name is not on the list. My son was not here, and by promising Steve's local assistant, Mr. Mark Bugher, that I would not call his office more than five times next week, he would let me testify. [Laughter.]

Mr. COELHO. Mr. Gunderson didn't tell us about that.

Mr. JOHNSON. I am not a member of any dairy organization here today. Before your committees in Washington no doubt the National Association of Milk Producers will be testifying. They'll say that they represent dairy farmers. AMPI will be there. Land O'Lakes will be there, and they're going to tell you how they represent the dairy farmers.

Now, I have never had an opportunity to vote for any of the directors of the National Association of Milk Producers. If I ever had an opportunity I should not vote for anyone who serves on that board. There were some other boards also.

These people represent dairy processors, and that should be known. They'd like to keep their plants full. They want to show a good bottom line.

I am a dairy farmer. I want the bottom line to show good for myself, not the cooperative that might be handling my milk.

Now, I want to make just a few comments of my own here that I think should be in the dairy bill. I'm going to keep this very short. Hopefully that you will ask me some questions for more detail later.

I believe as a right the dairy portion of the 1985 farm bill should have something in there that raises the minimum standards for retail fluid milk on the California program. I believe this would be very advantageous. We know that the milk processors would sell water and call it milk if they possibly could. We're spending 15 cents a hundred to advertise our milk. We want to see to it that that consumer receives a good class of milk as we promised through our advertisements.

Another thing that should be in the 1985 farm bill as it concerns the dairy section is that some sort of component pricing stipulation be put into the Federal orders.

I further believe that the component that should be given the strongest consideration should be the protein in that milk.

Also as we know, for the school program, the school milk program, it is required that only skim milk or low fat milk is served. We believe that whole milk should also be one of the choices that these children should have. And considering that the administration has seen fit not to permit that part of the milk program we believe it should be put into statute.

Now, I'm also a member of an organization known as Groundswell. These are farmers, indiviudal farmers. Many of them belong to many organizations, and I see the person who was going to speak did arrive—sorry—and is made up of farmers who belong to many different farm organizations, and believe that by getting together themselves they can probably put together a better farm bill than the organizations to which they belong.

One of the things that we would like to see in the farm bill, and here I'm speaking for Groundswell, would be a supply management program. We would like a supply management program based upon bases for each farmer, not with the provision that the Secretary at some times they could, and some times take out a supply management program. We believe that the program should be in force at all times so the farmer knows where he stands.

Basically a supply management program would be as follows, and I'm just going to go over this without any detail.

Each existing producer should see the base based upon the highest of his last 5 years of production. I'm going back 5 years here because at that time 5 years ago was when production and demand were pretty close to the right relationship, and some people saw the production raise and come back to their own. So I would refer to the fact that 5 years for that reason.

Mr. **Coelho**. As long as it doesn't take more than about 3 more minutes.

Mr. **Johnson**. OK.

The Secretary would make a determination on the amount of product needed for the Nation. County and seat committees would set the bases and the transfer of bases. The Commodity Credit Corporation would buy dairy products to maintain 75 percent of parity, and increase of a minimum of 2 percent per year on dairy prices until the dairy farmer's income would approach a parity with the rest of the working society.

And there would be an over-quota deduct from each producer's price to reflect the world market price. We think we should continue the promotion program.

I'll leave it go at that.

Mr. **Coelho**. Thank you very much, Mr. Johnson.

Mr. Selbrede.

STATEMENT OF HERBERT R. SELBREDE, VICE PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION

Mr. **Selbrede**. Thank you.

Mr. COELHO. You may want to lift that up just a bit.

Mr. SELBREDE. Thank you. I think these mikes work about like the farming business does.

First I'd like to thank the Congressmen for making the attendance here in our State. I think we have four Congressmen that have worked very well with the dairy industry in the past. They've given us a lot of support. I think we owe them a lot of cooperation.

I am a dairy farmer from Sparta, WI. I'm also vice president of National Milk Producers Federation headquartered in Washington, DC. And I appear today to present the dairy program which has been approved by the Dairy Executive Committee.

As was stated earlier, I am also chairman of the board of Wisconsin Dairy Cooperative.

The National Milk Producers Federation is a national farm commodity organization representing dairy cooperative marketing associations owned and operated by dairy farmers throughout the Nation. Most of the Nation's milk supply is marketed through the cooperative associations represented by the federation.

The federation develops programs and policies which represent a national dairy policy. The elements of this dairy policy include:

First, fostering the development and growth of cooperative marketing by the farmers.

Second, seeking a minimum level of price assurance to dairy farmers. It is this element of the federation's policy which I plan to discuss more in detail with you today. And I'm not going into a lot of detail because I presented the similar testimony in written form that was presented, I believe, on March 22 and March 27——

Mr. COELHO. Try to hold the testimony to 5 minutes. So you're free to do whatever you want in that amount of time.

Mr. SELBREDE [continuing]. Third, to seek and maintain orderly marketing conditions through the Federal milk marketing order program.

Fourth, assuring effective operation of our domestic dairy programs and policies by supporting limitations on dairy product imports.

Fifth, by maintaining the integrity of dairy products.

Each of these five items is of sufficient importance to require a full statement of support from us at such times as they are to be considered. Because general farm legislation is being considered this year my statement will be directed almost entirely toward a proposal for a dairy support program which blends with others to create a general agricultural policy.

The basic objective of the Dairy Price Support Program continues to be valid. The very nature of the commodity, milk, makes instability in its production and marketing inherent. Because milk is a bulky, perishable product whose production is dependent upon the biological processes of the cow, the ability of the price to properly coordinate production, assembly, processing, and marketing with consumption is greatly impaired.

It is vital that a purchase program continue to be the method used to support the price of milk. This system has worked well, and has provided stability in the market prices of milk and dairy products that could not be attained by any other method. It has prevented fire sale prices and maintained markets for producers during the flush production months.

During most of the years of its operation it has provided adequate supplies to moderate increases in milk prices during the short season. It has also provided valuable dairy products for use in many nutrition and needy assistance programs. We urge its continuance.

We do, however, recommend changes in the method of determining the price at which milk production will be supported, and this is the new base—new index that has been developed by National Milk, and I think you're mostly familiar with that, so I'll leave it.

Well, as mentioned in the index, is based on the 1976-78 production years. It is then adjusted to show changes in each of the individual years.

I would also like to make reference to the addendum that was set out just recently by National Milk on March 27 because this is the position that the executive committee took at their meeting. We support this position. We did at our board meeting yesterday with a few variances.

One of the things that we feel is very important in our position is that we do not lower the price much more because in a time when farmers are having trouble, they're looking at ways of helping them financially, we feel it is disastrous to even lower it any more.

We also recognize that with the turmoil in marketing just prior to the April 1 announcement, that it would be disastrous also again to lower the price support. So we feel that the adjustment, or the indexing should be through an assessment rather than the lower of prices. Once it gets down to the $11.86, if that is the figure that we're looking at, or $11.60, we'd like to see it froze at that level and then the dairymen themselves pick up the tab for the production over 5 billion pounds, or whatever the figure is there, would be paid for through the assessment on all milk. This is the only place really where we deviate a little bit from National Milk, and we really didn't deviate, but it didn't quite come out that clear when the written minutes were provided for us.

So in that area we do differ a little bit. Other than that we support the main testimony that National Milk has presented. And, again, I wish to thank you.

[The prepared statement of Mr. Selbrede appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very much. Mr. Edstrom.

STATEMENT OF PETER J. EDSTROM, DAIRY FARMER, RIDGELAND, WI

Mr. Edstrom. My name is Peter Edstrom. I'm a dairy farmer from Dunn County. I'm here to testify on behalf of the Farm Policy Reform Act of 1985 as it relates to the dairy bill, which is the matter at hand.

I feel honored to be able to be here, and I have empathy for those of you who are going to have to wrestle henceforth with the problems at hand.

Rather than deal on specifics maybe my testimony will be general. What I'm really giving you is my gut feeling as a dairy farmer really not representing any particular interests. However, I happen to belong to all three major farm organizations for one reason or another, and I can back my belonging to them for various reasons.

But I think what we first need to do is address the development of farm policy from the standpoint of what kinds of problems are we trying to solve.

I think farm problem identification—at least go back to looking at cause and effect. When we look at surpluses we look at resulting low farm prices which I think is a direct result of those surpluses. We have to look at why we have those surpluses. Basically that has been due to excess land resources, and a very rapid influx of technology that's been applied to production on those land resources.

Other considerations are the fact that the number of farmers has not contributed to the surpluses. We could have many, many farmers out producing what we're producing right now. It would have no effect on the surpluses. So farmers are not a surplus commodity, or a part of the input to be taken out of the production process.

Also past monetary policies have given us high interest, inflation, and strong dollars. And, again, farmers have no control over these things. All these have had the effect on creating surpluses.

We also have common goals. I think maybe we want to reidentify what these goals might be.

As a family farmer I have six children. I belong to the school board, and I'm concerned about my local community, my local church. I want to see us reduce the deficit. I think this is a very common goal of the people of the United States. It's a common goal of farmers. I think they probably voted this administration in because they felt strongly about the deficit.

Second, I think farmers in general want to reduce the Government's involvement in agriculture as much as possible. I do, and I think urban people do as well.

Third, we want to keep as many efficient farmers in production as possible. Our rural communities are definitely at risk. We go to meetings and we find more farm equipment dealers there than you do farmers. These people are really at risk.

Fourth, we certainly want to ensure an adequate supply of food from consumers and for export. I can't see how we can assure ourselves of that if we tend to reduce the level of free enterprise involvement in ag production by relying more and more on larger units of production.

Fifth, we want to make sure we maintain adequate measures to preserve our salt and our water. Because as we look at our resources nationally these are the only two things that are truly renewable. The rest of them are exhaustable.

Problem solutions then. First, remove those surpluses by applying sound supply management principles to our production system.

We have to do that by using accurate economic models to predict supply and demand relationships. We maybe need to focus more attention in that area.

Second, producer involvement referendum to ensure a Democratic consensus in regard to how we're going to reduce our surplus. And also producer involvement in domestic and foreign marketing. I wouldn't want to discount our role, which I think we've partially assumed now with the 15 cents in developing markets.

Present projected farm policy predicated on a cheap world food policy which has led to surpluses at any price, and I think we need to acknowledge that.

Extending that further with free market system doesn't ensure us of a world market either. And, furthermore, quotas are not a dirty word. Much like profit. My dad always said that. Profit is not a dirty word. But I don't think quotas, or supply and management are the more polite way to talk about it, ought to be considered a dirty word, even amongst those of us who espouse a free enterprise system wholeheartedly.

Free enterprise, in essence, has more to do with how we produce rather than how much we produce if you think about it.

The price problem is directly related to the supply management. We have low prices because we have too much stuff around to sell.

The removal of Government from agriculture demands that farmers be given the mechanism to control production to account for the excess land resources.

If we go to chapter 5, page 59 of the report put together by Boyd Buxton, the economic impacts of emerging technologies in selected farm policies for various size dairy farms, you find in there the supply management will resolve in the probability of survival for all farms in all regions. It also gives us average net present value increase. It also ends—the ending increases net worth at the end.

And, net farm income in this particular model here—I know Minnesota dairies was increased.

So you see, supply management could function in light of some of the common goals we have.

Farm income is dependent upon three things, the cost of production, the volume of that production, and also the price on that production.

The Farm Policy Reform Act of 1985 addresses these two things, supply management and price. It's a farmer drafted bill using the computer modeling of the Food and Agriculture Policy Research Institute with data coming from the University of Iowa and Minnesota. Prices are set at the USDA estimate of the cost of production, and we have mandatory acreage set-aside, and dairy quotas to address the supply management feature of this bill.

Now, why is this a good farm bill? I feel it's a good farm bill because it increases export into this country, and that's very critical at this point in time. It targets production to family sized farms. It eliminates subsidy payments. It eliminates them. Prices are established in the marketplace. It has strong provisions for beginning farmers, particularly in the dairy language of this bill which I helped put together.

It also provides to set aside a fragile land, and it does require cross compliance on conservation measures.

It protects integrity of the U.S. Department of Agriculture's budget by being fiscally conservative, and allowing for maintenance of such key programs as Soil Conservation Service, Food Stamp Program, and School Lunch Programs.

The Soil Conservation Service in the State of Wisconsin stands to lose some 89 people. With the problems faced with—and so forth I feel it would be rather devastating for me to go to my county office for help and not have it there.

This bill provides the elbow room budgetwise to allow for the maintenance of those things.

It eliminates current disaster payments.

Mr. Coelho. Mr. Edstrom.

Mr. Edstrom. Yes.

Mr. Coelho. You'll have to summarize.

Mr. Edstrom. OK. Budgets at less the administrative bill.

I'm optimistic that a free agriculture can survive but only if that's a free agriculture based on freedom from Government, and freedom from excess debt with freedom to produce as economically as we can.

Freedom is best epitomized by talking about a set of preconditions, and that is knowledge, tools for the application of that knowledge, and a lack of arbitrator restriction. I feel as though we've had enough arbitrator restriction placed on us by our Government, but I'm looking for a way out.

Thank you.

[The attachments follow:]

The Groundswell Dairy Program

I. Supply Management

A national referendum will be held to endorse the following supply management program.

A. Each existing producer will receive a production "base" set at their highest annual production in the last five years.

B. The Secretary of Agriculture, with the consent of the National Board of Agricultural Producers, will make an annual determination of the amount of increase or decrease in dairy production which is necessary to balance supply with anticipated demand. This adjustment will be assigned to each farmers production base.

C. Production bases are assigned to the farmer and cannot be rented, leased, or sold. Provisions will be established to allow existing producers to temporarily reassign their production base to a beginning farmer, providing that the production is continued on the existing farm. County ASCS committees will have responsibility for administering the transfer or allocation of production bases according to the following guidelines:

1. The transfer of existing base to family members who wish to assume operation of the farm, or to beginning dairy farmers who are new owners of a farm which has an existing production base, will be guaranteed.
2. New or unused base which becomes available will be allocated according to the following priorities:
    a. To existing dairy farmers in the county who can demonstrate they need to expand production in order to bring their production base up to the statewide average.
    b. An existing farmer in the county who needs to expand production in order to bring a family member into partnership.
    c. To a beginning dairy farmer in the county.
    d. To a beginning dairy farmer in the state.
    e. To a beginning dairy farmer in the country.
    f. To any farmer in the county.
    g. To any farmer in the state.
    h. To any farmer in the country.

D. No new or unused base may be allocated to farms on which the existing base exceeds one million pounds per family unit.*

E. Non-farm corporations or investors may not be allocated new or unused base.

F. The State ASCS Director shall select a five person Appeal Committee composed of dairy farmers who are members of county ASCS committees. The Appeal Committee will be responsible for the prompt hearing and judgement of appeals of base allocation or transfer decisions.

II. Price Floor at 70% of Parity

A. The support price for dairy products will be set at 70% of parity ($15.90) during the first year of the program. In each subsequent year the support price will be raised gradually until we reach a level at which farmers returns on equity and labor are on a par with the rest of our economy. This increase will be set at an annual rate of two percentage points of parity, and will be monitored by the National Board of Agricultural Producers.

B. An over quota levy equal to 75% of the support price will be assessed on all milk produced over a farmers production base.

III. National Milk Marketing Orders

We recommend the continued study of our national milk marketing orders with the eventual goal of one milk marketing order to replace the present system which is often inefficient, bureaucratic, and inequitable.

IV. Promotion

Existing programs for promotion will be retained, and expanded to include a broader effort at public education on dairy products, and on the social and economic value of the dairy program.

V. Government Purchase Program

The existing government (CCC) purchase program will be retained as a mechanism for maintaining established support price levels. Beyond the function of maintaining support prices, CCC purchases will be limited to an amount that will allow adequate supplies for government programs and a sufficient reserve.

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*family unit-A husband, wife, and dependent children would be a family unit.

The Farm Policy Reform Act of 1985

Fiscally Conservative, Long Term, Targeted at Family Farms

In a series of farm forums held throughout the country in 1984 and in hundreds of private meetings held during the past two years, farm groups and individuals expressed broad support for a new commonsense program to help efficient farmers bring their surplus production back into some reasonable balance with demand so they can get a fair price in the marketplace, rather than constantly overproducing and having to take survival payments from taxpayers.

In response, a cross section of family farmers, consumers, agriculture lenders, environmentalists, taxpayers and elected officials have developed the "Farm Policy Reform Act of 1985."

The major features of the proposal are:

1. Fair Prices in the Marketplace Producers would receive a fair price for their crops in the marketplace, not from the government. Costly subsidy payments would be eliminated, and the price floor (the price-support loan rate) for each commodity would be set at a level approximating the full cost of production for that product.

As of last November, for reference, the program formula would have set the price floors for eight major storable commodities at these levels:

Corn	$ 3.71/bu.
Wheat	$ 5.21/bu.
Grain Sorghum	$ 6.29/cwt.
Soybeans	$ 9.10/bu.

In each subsequent year of the program, the price floors would be gradually raised until, in the eleventh year of the program, they reach the level at which farmers' returns on equity and labor are on a par with the rest of our economy.

2. Balancing production with need. Mandatory production controls (subject to a producer referendum) would limit U.S. production of storable commodities to actual demand, including domestic consumption, export demand, humanitarian need and strategic reserve requirements.

3. Targeted benefits to family farmers. Each producer would have a single acreage base comprised of any acres on which any of the designated commodites were grown in any of the last four years. Each producer would be required to set aside 15% of this acreage base, but in times of surplus, giant operators would be required to set aside a progressively higher percentage of their base (a disincentive to conglomerate and tax-loss ventures).

4. Promotion of sound conservation practices. Locally-approved conservation practices would be required on all set-aside land. In addition, farmers could participate in a National Conservation Reserve, allowing for the voluntary, long-term retirement of fragile land. The Act would also contain prohibitions against "sod-busting" and provisions to encourage better protection of scarce groundwater resources.

5. Crop Disaster Reserve The current myriad of programs would be consolidated into one simplified approach that offers income protection to producers and protects both consumers and livestock producers from shortage-induced price increases. Each producer would annually contribute a portion (probably 3-4%) of production as an "insurance premium" into a national Farmers' Disaster Reserve (FDR). In the event of a disaster, a producer would receive commodities from the FDR to compensate for up to 90% of the loss.

DAIRY PROGRAM

A Groundswell Dairy committee is working on developing a program based on the following principles:

1). **One National Milk Marketing Order**
This will replace the current hodgepodge of programs

2). **Supply Management Program**
A national referendum will be held to endorse this Program.
   - a). Each farmer will receive a base set at their highest production in the last four years.
   - b). If production must be reduced to balance supply and demand, the reductions will be progressively "tiered" to assure that the very largest producers are required to make the most significant reductions.
   - c). Production bases stay with the farmer and cannot be rented, leased, or sold. County ASCS committees will allocate unused or extra base according to priorities that will allow for transferring base to new owners or within families, to existing farmers who need to expand production, and to beginning farmers.
   - d). Non-farm corporations or investors may not receive new base.

3). **Prices Raised to 70% of Parity**
Dairy prices will be set at the same level as feed grain prices. They will increase at the 2% annual rate until we reach a proper economic balance between agriculture and the rest of the economy.

6. Increased funding for humanitarian food aid. The USDA would be directed to enter into multilateral agreements with other food-exporting nations to fulfill food aid requirements to needy countries. These multilateral agreements should also mandate that additional emphasis be placed on helping needy nations develop food self-sufficiency to the degree possible, with each exporting nation allocating an amount of cash or other resources consistent with their level of food aid.

7. Increased promotion of export markets. Market development would include increases in export credits, negotiation of more multi-year export contracts, and a "monetary adjustment program" allowing foreign buyers to receive, when available, surplus commodities from government stocks to offset the negative impact of the overvalued dollar.

8. Strong support for domestic food assistance. The program would address the right of every American to a nutritious diet and, through the Food Stamp program, the Women, Infants and Children program, and other elderly and child nutrition programs, would provide adequate assistance to eligible needy families and individuals.

9. Farm credit and debt restructuring. Congress should immediately enact a temporary moratorium on farm foreclosures until the Act takes effect, at which time any foreclosed borrowers would be offered first right of refusal to repurchase any of their land or equipment not yet disposed of. The Act would contain provisions to allow deferral of principal payments for one to five years if the borrowers can project an adequate cash flow by the end of the deferral period to resume payments on the principal.

In addition, the higher price support levels and the FDR crop insurance program in the Act should greatly increase lenders' willingness to make operating loans to farmers and should halt the decline in the value of most farmland.

(Additional material is held in the committee files.)

Mr. COELHO. Thank you. Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman.

First of all, Mr. Alberts, I'm writing a little chart here with each of the witnesses as to what they are proposing in dairy.

Will Land O'Lakes support a supply management program some time?

Mr. ALBERTS. The membership of Land O'Lakes—supply management gets down to about the same as you referred to as quotas, wouldn't you?

Mr. GUNDERSON. That's why I'm asking the question because you're opposed to quotas, or bases, so that's why I'm asking the question.

Mr. ALBERTS. And the Land O'Lakes membership did not approve quotas. But there's going to have to be some incentive somewhere along the line to reduce production, and that was not the first choice. I know that several of the members spoke up at our meetings about if another solution can't be designed we maybe could go along with quotas.

Mr. GUNDERSON. Your first preference then is price cuts?

Mr. ALBERTS. As a dairy farmer that's not a very good preference, but quotas did not approve to the rank and file membership of Land O'Lakes.

Mr. GUNDERSON. Do you support a diversion program? A voluntary diversion program?

Mr. ALBERTS. Yes; that's—the voluntary diversion program while—that could be accepted. Our proposal does not differ too much from what National Milk Producers Federation has, although we don't agree 100 percent to that one either.

Mr. GUNDERSON. OK, thank you. Bob, you and I had a long discussion at our town meeting about—I skipped you and go on with Herb as the National Milk Producers Federation. As a vice president of that group, one of the things the chairman and I discussed is the need to perhaps set up some type of an industry panel to begin looking over the next couple of years and respond to the change in technology in the dairy industry.

Do you think your organization would be willing to be a part of that type of panel?

Mr. SELBREDE. Yes; I believe they would. I think they'd like to participate, and they'd probably even like to fund some of that. Not like to, but I mean they'd be willing to fund some of it.

Mr. GUNDERSON. I think I'll use the word like.

Mr. SELBREDE. I've got to be careful how I use that.

Mr. COELHO. Before you go on, if my colleague would yield.

Mr. GUNDERSON. Sure.

Mr. COELHO. Do you think that that type of panel should be the Milk Promotion Board that is currently established, or should it be something separate. Steve and I have talked about this at some length and I like the idea. I just think that we need to be moving ahead as an industry, and that it should be—people, dairy farmers, understanding and making suggestions, and working with us in regard to the next farm bill so that we have something to advance and we're not dealing on a day-to-day operation.

So do you think that the Milk Promotion Board that we currently have, or should it be something separate?

Mr. SELBREDE. I think they could function in that capacity because they are members, all are dairy farmers. They are members from all over the Nation. They represent most of the cooperatives, and even some of the privates in the industry, so I think you'd have a very unbiased panel to serve on that, and I'd have no problem with having a milk board serve on that.

Mr. COELHO. Thank you.

Mr. GUNDERSON. Pete, you mentioned in your proposals that we ought to have a referenda on some type of quota proposal, or supply management. I just want to ask you a quick question.

Do you think national referendums on dairy farmers would endorse a mandatory supply management, or do you think they would endorse a voluntary supply management like the diversion program?

Mr. EDSTROM. I think that depends on how much education was done ahead of time. I think people need to be thoroughly familiar with what they vote on ahead of time.

What I would like to see would be unification behind the farm bill that enacted supply management, and then henceforth produce a referendum as to the levels of cuts and the target prices to be achieved, and that there be unity behind that as well.

Mr. GUNDERSON. OK. Thank you, Mr. Chairman.

Mr. COELHO. Mr. Penny.

Mr. PENNY. Mr. Selbrede, you discussed moving toward a price support that would be designed under a new formula. And I think you indicated for the time being you want to stick with, I suppose, $12.10. But then move to a kind of a floating price support that's adjusted annually perhaps.

Do you have an idea where that kind of price support would place us currently?

Mr. SELBREDE. About $11.86.

Mr. PENNY. $11.86?

Mr. SELBREDE. Yes.

Mr. PENNY. And when you talk about the assessment to be paid for, the program, when we hit a trigger level on a surplus, are you talking about that assessment being made in a sufficient amount to pay for a diversion program, or pay for all program costs?

Mr. SELBREDE. There was two schools of thought on that as far as members of National Milk. There were some that felt it should be just for the assessment for the purchasing of products over the 5-billion pound level. There were others that felt that it could be incorporated in using it to pay for a diversion, with the logic being if the milk was not produced it would be a saving that would be less milk purchased then through the Government programs which would generate some of that extra dollars to pay for the diversion program.

Mr. PENNY. So then you're willing to go either way on that.

I don't have any further questions. Thank you, gentlemen.

Mr. COELHO. Thank you. Mr. Jeffords.

Mr. JEFFORDS. Just one comment relative to Mr. Johnson's testimony. I can assure you that we're aware that the interest of the processor and the interest of the farmer, and, in fact, the Government, are not necessarily always the same when it comes to the bottom line. Obviously the processor wants to keep his plant going at full capacity, and the Government doesn't necessarily agree with that, and that's not necessarily always in the best interest of the farmer as far as keeping the price up. We understand what you're saying.

Thank you.

Mr. COELHO. Mr. Penny.

Mr. PENNY. I just want to make an explanation to those that might have a copy of the agenda for today. On this panel there was scheduled to be a Joe Schmitz of Dodge Center, MN. Joe comes from my district. He is involved in dairy, but he's most directly involved in the ADA, and since they are primarily concerned about promotion of dairy products and not in the business of telling us what kind of farm policy to draft, he opted to skip the hearing today and we respect his views on that, because I don't think he wanted anything he said to be viewed as the position of the organization that he is deeply involved in.

Mr. COELHO. Mr. Johnson, I was intrigued with some of your comments about you not necessarily agreeing with what some of the co-ops want or don't want, and implying that the co-ops are processor oriented as opposed to farmer oriented.

Do you ship to a co-op?

Mr. JOHNSON. Yes, I do. It's a marketing co-op.

Mr. COELHO. And you are a member of that co-op?

Mr. JOHNSON. Yes, I am.

Mr. COELHO. Do other members of your co-op agree with you, or is this a personal view, or——

Mr. JOHNSON. Our cooperatives—oh, would you restate that question again, please?

Mr. COELHO. Is it a shared view by other members of your co-op?

Mr. JOHNSON. Well, the view of mine about National Milk is not only my view, it's the view of many farmers that I suspect that you do read also Hoard's Dairyman, a well respected magazine of dairy farmers who also agree——

Mr. COELHO. I think they want respect and I agree with them. I don't agree with them sometimes.

Mr. JOHNSON. Who also agrees with me that the people who purportedly speak for dairy farmers before the Congress of the United States do not necessarily speak for the dairy farmers.

I'm not saying that they are completely wrong all the time. I'm not saying that they are trying to hurt the dairy farmer. This is not my point. My point is that they don't always have the same feeling, the same background, the same pressures that the dairy farmer himself has. I only wish we had an organization of dairy farmers to represent us before the Congress of the United States. We do not have that, I'm sorry to say.

Mr. COELHO. You don't think the Farm Bureau represents you?

Mr. JOHNSON. The National Farm Bureau? Definitely not. I am a member of one of the Farm Bureaus. I'm debating whether to send my State membership this year because of it.

Mr. COELHO. You belong to the Farmer's Union, or——

Mr. JOHNSON. No, I'm not a member of the Farmer's Union.

Mr. COELHO. If you feel that the co-ops don't represent you, you say they sometimes don't but they—you also imply that sometimes they do then.

If they don't always represent you, we as Members of Congress, how do we get the input from the dairymen and women across this country if we don't get it from the representatives of the people that you elect to represent you?

Mr. JOHNSON. No, don't get me wrong. These are not the people I elect, and this is the point I attempted to make. I have never had an opportunity to vote for a director, vote for the National Federation of Milk Producers. Have never had that opportunity.

Mr. COELHO. Neither did most dairy farmers. That's nothing new.

Mr. JOHNSON. This is true. This is the point I'm making.

Mr. COELHO. The organizations that are members of the Milk Producers Federation, those people are elected to represent their organizations and those organizations are on the Milk Producers Board. I mean, that's the whole makeup. You know that. I know that. You don't need to mislead people in this room on that.

The point basically is, those people on that board are represented and elected by people from given areas.

Now, if they are not representing the dairy farmers from those areas, the dairy farmers just don't know what's going on, I don't——

Mr. JOHNSON. No, it isn't that they don't—you have to realize how most of the structure of most of these large dairy cooperatives is made up. It's made up in a pryamid basis. They will have some local meetings in which they elect nice guys to go to a meeting. These are the nice guys who don't say too much and——

Mr. COELHO. Why don't they elect somebody that isn't a nice guy?

Mr. JOHNSON. Because they don't usually get elected.

Mr. COELHO. Wait a minute. Let's stop here a minute.

Now, you're right at the crux of the whole problem. You were saying that the people that are elected are nice guys, nice gals, I guess. You are saying that the people who are aggressive do not get elected.

Mr. JOHNSON. Wait. Maybe I should restate that a little bit. I probably overstated my position.

Normally you don't see how the people who vote, who are elected, how they vote once they are elected.

Mr. COELHO. That's a criticism they make of Members of Congress all the time.

Mr. JOHNSON. No, we know how you vote. That is good. But I'm saying in these cooperatives you don't usually know. That's what I'm saying. You usually elect nice guys but you don't know what they're doing once they're elected. Then once they're elected you come to sort of a pyramid sort of situation in moving up through the organization. That's why I said—when I was referring there mostly to after you get on these boards—you move from the regional, to the sectional, to the national, and so on. People who are urged and get a chance to move up are people who will normally go along with things the way they are. Not always, but quite often this is the situation.

Mr. COELHO. I appreciate your comments. I think everybody understands that. But I want to make a point.

Mr. JOHNSON. Yes.

Mr. COELHO. That these people are elected at local levels and if they're elected because they're nice people it's because the people in that area want to elect them.

Mr. JOHNSON. Yes.

Mr. COELHO. If they don't represent the farmers from that area whose fault is that?

Mr. JOHNSON. I think it's the farmers' fault.

Mr. COELHO. And so I think that it's important here to—I mean, I believe in the co-op movement.

Mr. JOHNSON. I do too.

Mr. COELHO. And I think you do. I think it's important for us to—with some of our comments not to imply that the system is wrong. Maybe what's wrong is the farmers aren't taking an active role, and who they elect, and what those people do or do not do, but I think the system is right.

Mr. JOHNSON. I think a better system, Congressman, as I stated——

Mr. COELHO. Is having you and I decide who should be elected.

Mr. JOHNSON. No, no, if we had an organization made up of dairy farmers elected by dairy farmers through a straight vote rather than going through the various cooperatives.

Most of us sell to various cooperatives not because we believe in their political views necessarily, but rather they're probably getting us a pretty good price for milk. Their milk truck happens to go by our place, or something like this. Not because we just definitely believe in what their political views are.

And so my point is this—the reason for joining these cooperatives is not necessarily because of their political view, but because of the convenience or what good the cooperative does in marketing and so on.

So the two are not necessarily together, if you understand what I'm saying.

Mr. COELHO. I understand what you're saying, you just don't have 50 percent of the votes plus one in order to elect who you want, and that's a problem that the parties have, and everybody else has generally across the board. But I appreciate your comments. I appreciate the discussion of this panel, and move onto the next one. Thank you very much.

Mr. Weisenberger, we're ready for your testimony.

STATEMENT OF RALPH N. WEISENBERGER, DAIRY FARMER, ETTRICK, WI

Mr. WEISENBERGER. To you, Honorable Congressmen, Chairman Coehlo, Congressman Gunderson, Congressman Penny, and Congressman Jeffords, we all appreciate you gentlemen being here with us today.

I'm Ralph Weisenberger, a dairy farmer from Ettrick, WI. I farm in partnership with my son, Gary, and Michelle, his wife.

I appreciate this opportunity to outline some of the concerns I have with current dairy policy and proposals that have been put forward for inclusion in the farm bill currently under development by Congress.

I am a member of Associate Milk Producers, Inc., north central region. I'm a regional board member there. And have participated in the policy development process of the cooperative.

This past winter and spring much attention was given to the so-called farm credit crisis. In my opinion, there is no farm credit crisis. The problem that exists is one of farm income. Current farm income is inadequate to meet the needs of farmers to service debt, meet operating expenses, and to meet reasonable family living needs. This farm income problem must be dealt with through the new farm bill.

Some have suggested that the answer to the current problem is for farmers to become more efficient. Improved efficiency can help; however, the record of efficiency in agriculture has been such that one cannot expect that to be the total answer. There should be no problem—if improved production efficiency were the answer, there would be no problem in agriculture today.

The milk diversion program established as part of the dairy compromise legislation in 1983 has just ended. There is a good deal of speculation as to what would happen with milk production now that the program has ended.

Without speculating on that, however, it is safe to say that the diversion program demonstrated that the supply management concept works for the dairy industry. Comparing calendar year 1984 with 1983 we find that the cost of the dairy price support program was down by more than $1 billion. Commodity Credit Corporation purchases of dairy products were reduced by 50 percent. All of this was accomplished under a self-help program where dairy farmers themselves paid the cost to the diversion program through an assessment of all milk marketed.

The diversion program was not the ideal program. It had weaknesses that most dairy farmers recognized at the outset. The program was too short. Limitations on a transfer of cattle discouraged many from participation. The prospect of penalty was a further discouragement.

I did not participate in the program myself due to a severe stray voltage program on our farm—7½ years to be exact—from which reduced my production during these periods substantially.

Mr. Coelho. Mr. Weisenberger, would you tell us what a stray voltage problem is?

Mr. Weisenberger. Sir, in effect, 7½ years ago we built a new dairy facility. That was the first of it. Apparently the first I noticed of it. It ended up to be a current, or, in short, I'll say a shock going into the cows mammary glands, if you understand, the delicate glands for milk, and shocks them. You or I couldn't feel it, but it's very common. It's now to the point where there are suits and other things going on. And in our case it was coming in through the high line. We lost, I'd say, in excess of a couple hundred cows.

Mr. Coelho. So you're saying, in effect, that you already were being cut because of this problem and you couldn't afford more.

Mr. Weisenberger. We dropped at least 100 pounds butter fat in our herd per year.

Mr. Coelho. Thank you very much. You may proceed.

Mr. Weisenberger. And I did not participate in the program due to that.

Because of this, the program did not fit into our operation. You can understand why. I was worried about one of the lines—off the record. I was worried about one of the lines—we may end up with a V system, or something in that order, and I knew we were—we have to do the best we can. As long as—last March, and so we're now going again.

Because of this program I do however recognize the need for the strongest possible supply management provision as a standby to help the dairy price support cost. This would be used when substantial adjustments in production are needed to maintain a reasonable supply and demand, and to control Government costs.

A supply management, or supply balancing program would be a standby program to be used as needed. As a basic mechanism of the price support program it is essential that the purchase program be continued, I think. The proposal of Secretary of Agriculture Block to phase the program out over the next few years and replace it with a deficiency payment type program simply does not recognize the needs of the dairy industry. This would create great instability in milk markets with milk prices fluctuating over a wide range. This would be damaging to both producers and consumers.

The price support program has been a basic element of dairy policy since its enactment in 1949. During this 35-year period it worked well to assure an adequate supply of milk at reasonable prices. Its effectiveness is at least partially known in the fact that consumer prices for dairy products have risen substantially less than prices for all food items, or prices for consumer items generally.

Increased cost of the price support program in the past few years resulting from increases in milk production should not be taken as a signal for dropping the program. To a great extent these problems reflect the lack of alternatives in the rest of agriculture.

What should be done now is to build on the experience of the past. The successes of the price support program and the milk diversion program should be used to develop the dairy policy for years ahead.

At its annual meeting 2 weeks ago the AMPI members recognized this by calling for a continuation of the basic dairy price support program, and inclusion of the strongest possible supply management program as part of the policy.

We know that such a program works. It does address the need to balance supply and demand. It does address the need to control Government cost. Most important, it addresses the farm income question.

One aspect at the end of the diversion program must be commented on. The 1983 legislation authorized the Secretary of Agriculture to reduce the price support level by 50 cents on April 1, 1985, if he estimated that CCC purchases over the next 12 months would exceed 6 billion pounds of milk.

Two weeks ago Secretary Block announced such a change. In announcing the product purchase prices through which the program will be run, however, the Secretary actually reduced the support for milk being made into cheese by more than 50 cents. The purchase price for cheddar cheese in 40-pound blocks was reduced by 6 cents a pound. Since 100 pounds of milk yields 10.1 pounds of cheddar cheese, this is the same as a 60-cent-per-hundredweight price support reduction.

USDA has explained that this is due to the inclusion of a 10-cent credit of the value of whey solids derived from the cheese production process. Given the current and prospective weak market for dry whey, it is not expected that processors will be able to realize the 10-cent return represented by that credit. This means the money to make up the difference will come from the farmer's milk check.

In the case of barrel cheese, the purchase price was also reduced to reflect whey credit. First is the differential in price on cheddar cheese in 40-pound blocks and barrel cheese was increased from 3 cents per pound to 4.25 cents.

This has the effect of reducing the return to the farmer who sells milk to a plant producing barrel cheese by an additional 12 or 13 cents per hundredweight. In total, the price support reduction in this case approached 73 cents per hundred.

And off the record I also think if this goes on we've paid our share because we have 6 months at 25 cents too much.

Mr. **Coelho**. You realize nothing is off the record here. [Laughter.]

Mr. **Weisenberger**. The Secretary has said farmers have lost confidence in farm programs. One of the things most damaging to the reputation of these programs is for them to be administered in a manner which defeats their purpose, or denies the price protection they are intended to provide.

Thank you.

STATEMENT OF JIM REEVES, VICE PRESIDENT AND GENERAL MANAGER, NORTHERN DIVISION, MID-AMERICA DAIRYMEN, INC.

Mr. **Reeves**. Mr. Chairman, I'm one of those dairyman's hired hands that's here today. You have a statement of our hopes and dreams for the Farm Belt, and we'll let those stay in.

Mr. **Coelho**. It will be made a part of the record and received.

Mr. **Reeves**. Thank you. I think I'd like to talk about a technical aspect of one of the problems that we see and kind of reinforce one of those positions.

Mr. **Coelho**. I will state you're holding that to 5 minutes, but you may go ahead.

Mr. **Reeves**. Thank you. I would say that I've been around the farm group for a long, long time in the dairy industry working for cooperatives since 1949. I probably have never seen it much worse than it is now.

I would say also that I found out last week I have a very personal stake in this. I have a father-in-law who is 84 and he's still in dairying, and he told me that if the prices didn't improve he was going to move in with me. So I do have a very personal reason. I don't like my mother-in-law.

I think particularly I'd like to discuss the need for continuing the current CCC purchase program for dairy products instead of establishing this target price and deficiency payment program.

I'd like to point out that much of the CCC purchases of cheese to support prices occurs in the Upper Midwest. Minnesota alone accounted for 44 percent of all cheese purchases for the marketing year just past to keep prices up.

Now, if you add the purchases made in the State of Wisconsin, and in North and South Dakotas, you account for almost 85 percent of all the cheese purchases made during the last marketing year to support milk prices.

In short, when we have an overproduction of milk the surplus tends to back up in the Upper Midwest. Much of it in the form of cheddar cheese.

Now, the deficiency payment program would lower prices to market clearing levels. We're going to say let it go so we're going to sell all of it.

And then we make deficiency payments directly to farmers to equate the difference between this market clearing level and a target price that would be established by the law.

The problem that I see here is that the effect of the market clearing price is going to affect the Upper Midwest dairy farmer to a greater degree than the dairy farmers of other regions of the United States.

Basically the market clearing, or the lower price is going to pertain for the most part to the manufactured products such as butter and cheese, and nonfat things of that nature. To a much lesser degree to class I products, or class II products such as ice cream, sour cream, cottage cheese, things of this nature.

Generally the Upper Midwest dairyman is precluded from fluid markets in other areas because the prices in those areas is not high enough to pay the price of milk up there and the transportation to those markets. Now, there may be exceptions to this but not very many.

Conversely, the price support program that we currently have that purchases surplus cheese, butter, and nonfat, and establishes a price floor and the location of that surplus up here in the northern—it establishes a floor here, but it also establishes a floor throughout the rest of the industry by virtue of the M-W series, the M-W price series, which is effective in all the Federal orders as the basic price they start from.

I think we should make no mistake about it, a target price and a deficiency payment program for dairymen will place an undue burden on the dairy farmers of the Upper Midwest.

One more brief point. I would like to point out that the loss of the CCC purchase program in favor of some sort of a different type of program would eliminate the legal reason for the quota system, which is now, in my judgment, absolutely necessary to protect the dairy farmers of America from literally floods of subsidized foreign products.

The administration proposes that the quota system, I believe, be bargained away in future GATT meetings. That would be fairly simple if we had the—if we had no price support system in effect. It would be fairly administrative technique. It would be very difficult, and I don't think it could be accomplished if we continued our current price support program.

I guess for these reasons, and I wanted to speak to this one technical point, we do urge the continued use of a price support system in the 1985 farm bill.

These are the two points I wanted to emphasize. Other positions with respect to other elements of the 1985 farm bill, as I said, are included in the statement we filed with you. All of us at Mid-Am, throughout Mid-Am, want you to know that we appreciate the efforts of Congressmen Penny, Gunderson, Coelho, and Jeffords. We have always found you good friends of the dairy farmers. We really have, and the whole dairy industry. We appreciate your efforts, and if there is ever anything we can do, why, please feel free to call on us.

[The prepared statement of Mr. Reeves appears at the conclusion of the hearing.]

Mr. COELHO. Thank you. Mr. Huppert.

STATEMENT OF ANDREW P. HUPPERT, DAIRY FARMER, RIVER FALLS, WI

Mr. HUPPERT. I'm Andrew Huppert, and I certainly thank the Congressmen for letting me have a chance to speak. I was listening to Mr. Johnson saying about the original farm bill. The ordinary farmer doesn't get a chance a lot of times. I own a 207-acre dairy farm, 38 cows, by River Falls, WI. I believe I'm an ordinary dairy farmer.

We talk about the surplus of milk, and I guess right today I feel we don't have a surplus of milk. We've got a surplus of dairy products. A lot because we got a surplus—just like last summer we got a shortage of milk, and at the same time $21½ million worth of dairy products were shipped to Uncle Sam from Wisconsin alone. Well, my own feeling is we should have looked for that bottling market that wanted that milk. So that's just one issue I got to talk about.

The next issue like Dr. Cropp to prove my point, last couple weeks ago up in Pepin County he pointed out we had 8½ billion pounds of dairy products milk equivalent on hand, and you're over the 6 billion mark, and then he mentioned—you're going to get cut your 50 cents on account of that.

Then he mentioned about 2.6 imported, and then about 300 million pounds of invitation dairy products made out of—in parts on top of that.

Anyway, I said, "well, we're below 6 billion pounds." I said, "we shouldn't be getting cut. It's on account of imports we're getting cut."

He says, "I know where you're coming from, but there's a lot of politics in this." All I could think of it was funny, politics would play this role.

But anyway, then I told him, "if our children in our schools would receive milk the way they did before the special milk program left we'd have a shortage today." He says, "well, there is a lot of politics in that one."

So, anyway, I'm really here for the 45 million children in this country who are eating in our schools—anyway are going to our schools—about 52 percent of them only eat in the hot lunch program, but 48 percent used to be covered with the special milk program.

Senator Proxmire spoke up at the RA Building in Pierce County 3 years ago in June, and he said the worst thing this administration did was when they took that special milk program away from the children, and there's no doubt about it, our own school district, the consumption has dropped from 307,000 cartons of milk down to—in 1980-81 when the special milk program was in effect. There were 213,000 2 years later. Stable enrollment of about 2,200 students.

In the first place a lot of people don't realize was the nonprofit agreement was taken away when the special milk program went away. We were selling milk at our school for 8 cents a carton. They took a nickel away. Instead of going to 13 or 15 they went right to 20 cents. I'd add 15 on account of my effort, but a lot of schools are charging 20 times more for the milk today than they were when I was going to school. A lot of things have inflated but not that bad. So school kids are really getting ripped off. You can buy eggs today in your supermarket for the same price you did in 1950, but school kids got to pay 20 cents more for a carton of milk and that's $125 million that would cost. That was just a couple missiles we voted on a few weeks ago.

So a very small portion—if we're going to do anything, I mean, a lot of farmers are hurt here today. We talked to what extent the diversion program—I'd sooner see the children get that product than to be talking not to produce it. Because 10 cents a hundred in my pocket would—my milk check would pay for the special milk program instead of taking 50 cents out like last year. And I think these children are more important than a lot of hogs were this following year I got that.

That's another point Dr. Cropp pointed out. He said this past year instead of 2½ percent of the milk that was used on the farm for feeding calves and hogs it was 4½ percent, so we know a lot of these cows didn't go to market.

Of course, 38 percent of the total milk is fluid, but they drink 40 percent. It's a big market for us. But 16 percent of the total milk.

At the same time—the reason I'm fighting for the special milk program, 1,100 schools surveyed by the USDA a few years back, and 30 percent of the students, get less than two-thirds the amount of calcium they should have. I mean, this would certainly help them get this calcium if they could have this milk at a cheaper cost like you used to.

Another thing is they were spending $200 million for advertising, or close to it, and according to Susan Friday of the National Milk Producers Federation, half the cheese in the schools may be imitation. I imagine this imitation comes in—a lot of farmers won't eat it—but what trickier way of putting it than in the lunchtime when they don't know which one is there.

Another thing is when they cut the School Lunch Program $1½ billion here in 1981, 12 percent less kids ate in the hot lunch program here in Wisconsin. And the Nation is the same way. This is the Nation. Wisconsin is the same amount, the figure went down.

Only 52 percent of the kids in Wisconsin ate in the hot lunch program in 1982.

The last several—5 school districts came out to 42 schools anyway—and then we go on—I always think of President Eisenhower. He put this special milk program in, and he's got to be the best friend the children ever had, and at the same time another Republican President took it out, and now he wants to take away most of the hot lunch program. I can't imagine what's going to happen if that price goes up another quarter, or 20 cents. I mean, we're going to lose more customers.

Do we want to get like Ethiopia where we forget about feeding these kids just because they can't afford it? I'm thinking of kindergarten children now from a needy family goes out to school the way it is today, he goes to school and sits there without a carton of milk while his friends they got money can have it. That isn't fair. If he went to school without a hot lunch program he would get a free carton of milk.

Mr. COELHO. So you can summarize in one sentence, or ask where the period is.

Mr. HUPPERT. I'll sum it up in a hurry.

Anyway, back in 1979 the regulation that whole milk was dropped from the regulation in Washington in the schools—I'm sorry.

Anyway, right now in Wisconsin there's 432 public school districts. I had them make a survey for me, and 384 answered the survey back. And right today, or last year of April, 164 school districts out of the 384 do not offer whole milk. Well, I don't care if there's only one child in that school. He should have his opportunity to have that choice, and the National Milk Federation is behind me on that now.

[The attachment follows:]

feedback

Uncle Sam Culprit In Dairy Surplus?

To the Editor:

I read with interest the statements of Robert Anderson, executive of the National Cheese Institute and of the American Butter Institute, as reported in *Agri-View's* June 28 and 29 issues.

Speaking before the National Dairy Promotion and Research Board, Anderson advised board members against butter promotion because of a temporary shortage of cream. A shortage of cream? For the last few years we've heard nothing but surplus as the cause of our dairy problems. But is our surplus so sensitive as to come and go with the seasons? If so, perhaps better planning would have staved off the surplus altogether.

Let's review some of the government actions that have actually contributed to our dairy surplus—whatever size it is.

Item: In 1979 the federal government dropped its requirement that whole milk be offered with school lunches. And in Wisconsin, a recent Department of Public Instruction survey shows that 42 percent of public schools—more than 160 districts—do not offer their students whole milk. The situation is probably even worse in states without our dairy emphasis.

Item: In 1982 federal cash and commodity subsidies were reduced by over $1.5 billion. That year, participation in the National School Lunch Program dropped by more than 12 percent. In Wisconsin, only 52 percent of students ate in the school lunch program that year. Five public school districts and 32 private schools in the state dropped the school lunch program altogether.

Item: Also in 1982, the federal government cut about $125 million from the special milk program, established in 1954 for schools participating in the National School Lunch Program.

Item: There is currently a USDA regulation which allows 50 percent of the cheese used in a school lunch program to be imitation.

The government, and more recently farmers themselves, are spending millions of dollars to try and deal with our dairy surplus. But could it be that the surplus would have been less severe, or nonexistent, if the government had just let things be the way they were before 1979?

Andrew Huppert
Route 4, Box 105
River Falls, Wis. 54022

Minnesota

By Jane Fyksen
Associate Editor

Milk has achieved status as the official state drink—but in the Land of 10,000 Lakes instead of in America's Dairyland.

Yes, neighboring Minnesota has beaten Wisconsin to the punch by adding milk to its list of state symbols. The milk measure sailed smoothly through the Minnesota Legislature in the past session, while it sank here in the "dairy state."

Milwaukee balks at milk symbol

Milk's glorious quest to become Wisconsin's official state drink was swamped by some "beer town" legislators. Milk was one of many proposed state symbols during the Legislature's last session. While legislators were willing to give a nod to Antigo silt loam as the official state soil, they balked to the American water spaniel as the state dog and the tuba as the state musical instrument. So milk went down the drain with the rest in an outcry from some legislators that there were just too many state symbol measures. They felt they ought to be spending their time on more important bills.

Brist may try again

Steve Brist (D-Chippewa Falls) was the primary promoter of milk for state symbolhood. He says he's "sorry Minnesota beat us to it."

There's a chance, however, that Brist will reintroduce milk in the next session if there's some way to bypass the Senate's urban affairs and government operations committee. That committee is chaired by Milwaukee legislator Mordecai lee. The Milwaukee Democratic finally said enough is enough to the state symbol bills and had his committee sit on them.

Brist isn't bothered by the fact that Wisconsin may look like it's copying Minnesota if this state does eventually adopt milk as a state beverage. "I think it will be another little promotional point for milk. It could get some publicity for it," he comments. "Telling Wisconsinites that milk is Minnesota's state beverage wouldn't sell much more milk here."

Drink symbol 'symbolic'

"It's not the most important thing we do in Madison. Obviously, there are more important things we could do to help the farmer, but this small thing is symbolic," Brist argues.

It appears Wisconsin's other symbols—the robin, badger, granite, sugar maple, muskellunge and wood violet—will be without a new companion for awhile.

Minnesota dairymen pleased

Across the river, Minnesota's dairy industry is pretty pleased that the drink will now be hailed with the loon, walleye, lady slipper, Norway pine

Mr. COELHO. Thank you, Mr. Huppert. Mr. Penny.

Mr. PENNY. Mr. Chairman, Mr. Williams.

Mr. COELHO. I'm sorry. Mr. Williams, go ahead. We went over you.

STATEMENT OF ROBERT J. WILLIAMS, EXECUTIVE DIRECTOR, TRADE ASSOCIATION OF PROPRIETARY PLANTS

Mr. WILLIAMS. Thank you, Mr. Chairman. My name is Robert J. Williams, executive director of the Trade Association of Proprietary Plants.

I will not read my statement in its entirety, but I will put it into the record.

Mr. COELHO. It will be made a part of the record without objection.

Mr. WILLIAMS. Our documents are in detail, an outline of the modified dairy diversion program. We recommend an analysis by Robert Cropp from the University of Wisconsin Cooperative Extension Program.

We also have an analysis of the diversion program, and comments on the 1985 farm bill.

The program briefly involves the following elements with supporting reasons:

First, a separate dairy bill to become effective July 1, 1985. It is important that we prevent a buildup of production and surpluses between expiration of the dairy diversion program and October 1, 1985, when another farm bill will go into effect.

Two, the support price then will be $12.10 with a 50-cent assessment. That amount is $11.60 to the dairy farmer. And we will study the program—$12.60 with a 50-cent assessment from the standpoint of the practicality—thinks that's impossible.

The 50-cent assessment was the difference between the $12.10 support rate and the $11.60 to farmers. Could be used to reduce supply and the price cost.

Actually there are three interested parties involved in the present day surplus problem. It includes producers with serious income problems, the element with high purchase cost, and consumers already getting a good buy on dairy products.

Maintaining price supports at the $12.10 coupled with the 50-cent farmer assessment is a method whereby production and Government cost can be cut immediately and at that same time provide dairy farmers an alternative or income safety net while production comes into balance with demand.

The $11.60 net price to farmers coupled with the increase in cost, deduction of living, will bring supply and demand into balance with demand within 2 to 3 years, at which time the assessments and diversion payments will no longer be necessary.

Three, the program provides a voluntary production cutting incentive of $10 per hundredweight diversion payment. The diversion payment financed by the 50-cent assessment which is indirectly financed, I guess, by the consumers, provides an alternative or safety net on dairy farm income.

When Government supports milk at $12.10 through purchases the variable cost of milk production, that is for feed, veterinary, and so forth, are about $8 to $10 a hundredweight.

So marginal income contribution accruing to the farmer to cover fixed cost, living expenses, and profits, is only $2.10 to $4.10 per hundredweight.

In other words, the Government is purchasing product that the total cost is about $16 and of that $16 about $2.10 to $4.10 accrues to helping the farmers income problem.

So that $10 diversion payment is a $10 per hundredweight marginal income contribution which covers fixed cost, and any profits. And compared to just purchasing the product that $16 per hundredweight he nets $5.90 to $7.90 marginal income.

To support prices at $12.10 through purchases, an additional $4.40 per hundredweight expense for processing, grading, transportation, storage, and interest. None of these contributes to the farmers' income. It is a very inefficient way to support farm income and represents an unnecessary burden on taxpayers.

So paying producers to cut production, especially financed by assessments, is the most efficient way to support farm income and reduce Government cost.

The dairy diversion program is voluntary. It's got some voids and pitfalls, the quotas and mandatory base plans. The program includes adjustment of price support weight and triggers based on anticipated Government purchases of 3 to 5 million pounds annually. This would keep your Government costs between $500 and $900 million annually.

This cap on Government cost shifts the responsibility of surplus production to the producer where it should be.

Volume of Government purchases which trigger support levels reflects all the changes in supply and demand, including technological breakthroughs in production.

Participation would be limited to between 5 and 30 percent of production, and $50,000 per farm, plus the amount of assessment paid in. This farm limitation should spread participation more equally and regionally, and limit public criticism of the program.

Participation under the past program was 12 percent. I think it would be somewhere between 15 and 25 percent of the suggested program. The restrictions on dairy cattle sales would be dropped. The signup period would be longer, and the income advantages in the program would be better known to farmers.

Two impediments to implementation by July 1, 1985 are regionalism and considering the dairy bill separately from other commodities. The attached analysis deals with these two subjects.

The suggested program would put Government cost to $300 to $400 million, which is an all-important consideration for Congress which is struggling with the budget deficit problem.

It would represent approximately $1 billion per year savings over the next 3 years.

The Trade Association of Proprietary Plants is opposed to two-tier pricing systems, mandatory base support plans, divisionalism, and production and marketing of milk and dairy products with elimination of the price support program.

And we also oppose any program that discriminates between grade A and grade B milk production.

I should also say they oppose—service payments on the—the balanced markets.

In summary, I think TAPP supports the suggested dairy diversion program because it is the best answer to the producer income problem and the Government surplus cost problem. Thank you.

[The prepared statement of Mr. Williams appears at the conclusion of the hearing.]

Mr. **Coelho**. Thank you. Mr. Penny.

Mr. **Penny**. Thank you, Mr. Chairman.

Mr. Reeves, in your testimony you said just to show that in the Upper Midwest, 85 percent of all cheese purchases by CCC occurred in this area.

Mr. **Reeves**. That's correct.

Mr. **Penny**. What are we going to do to change that?

Mr. **Reeves**. Well, when you get supply and demand back in balance that cheese will flow back into the marketplace. It's simply that most of the cheese, much of the butter and powder, is produced in this area, and it does tend to accumulate, and there is a surplus.

I might point one thing out that you might want your staff to look at, having to do with this next price support reduction, if I could, because it's very tantamount to what we're talking about.

If you look at what's happening, the reluctance of cheese purchasers to purchase cheese because they know they're going to face a 5-cent-a-pound reduction in price on July 1, I think you'll find that the Government is going to buy about 20 percent more cheese than they would if we did not—if we knew right now we weren't going to face that price support that would flow into domestic channels.

What's going to happen now, that's going into the price support, in the Commodity Credit. It's going to be precluded from coming back because what they buy other than nonfat is not very good to use for commercial purposes.

If they made the announcement now I really believe they could save money in the long run in the support system. I believe an economic analysis of that will show that.

Mr. **Penny**. You believe keeping a price support constant for a long period of time is going to eliminate the buildup?

Mr. **Reeves**. No, I don't mean that. I'm saying you've got two price supports coming one upon the other's heels. And you're increasing the cost during this market year because of that.

Mr. **Penny**. I gathered that point. I was trying to ask the reverse of that.

If you keep it constant so that we don't see that you're going to have a lower price support, and, therefore, a lower cheese cost, is that going to help us move the product?

Mr. **Reeves**. Yes, it will. It will tend to cause more purchases on the commercial prices. It certainly will.

Mr. **Penny**. What about in California where now they're going beyond producing for their local fluid market, and they're beginning to produce that surplus for their region, and, therefore, they're making cheese, butter, and, frankly, taking some of the market that a lot of our cheese and butter provides.

Mr. **Reeves**. Well, I know some of——

Mr. **Coelho**. If I can just ask my colleague to yield.

As I think you said, that they not only are producing for their fluid market, I think you also said they are now starting to produce for some of their cheese market, and so forth. I just wanted to make sure.

Mr. **Penny**. I just want to make a point—as the chairman will recall, we have provided in the past, and for the most part producers in those regions have produced for a fluid market. And it causes me some concern if 85 percent of our Upper Midwest's production is going to CCC's stocks now, where will we stand if we have more production in other regions that now goes into cheese and butter?

Mr. **Reeves**. Well, I'm one of those people. The young lady that testified earlier, the dairy farmer wife, I thought had an excellent point. We in Mid-Am have a very strong R&D Program. I have to think that cheese per se is the future. And I think that the United States can handle a lot more cheese. We're around 19 pounds per capita. I believe we could go as high as 26 or 27. And if we did, then we're going to need some of Mr. Coelho's constituent cheese out there to handle things for Mr. Demodaris and some of the other people.

We are getting a lot of cheese, incidentally, in the Midwest from that area. It's mozarella cheese. I don't think we can have internal—within the United States any sorts of barriers to the free movement product. I think it's got to be done based on the cost of production and access to markets, that sort of thing.

But I hope that we have other programs that belong with this. If we can bring supply and demand back into reasonable adjustment as we have talked about there there will be plenty of room for our cheese, and California cheese, and cheese from the great Northwest, and the great Northeast, and all the other people that want to manufacture it.

Mr. **Penny**. Thank you, Mr. Reeves, and thank you to the panels.

Mr. **Coelho**. Mr. Gunderson.

Mr. **Gunderson**. Thank you, Mr. Chairman. I have only one comment, and, Mr. Reeves, you might want to respond to it, but I want to contest the movement of what was said regarding the issue of target prices. I'm not ready to support target prices in the short-term. I think we need to have a purchase program now.

But I want to be careful that we don't preclude that opportunity down the road. Frankly, I can tell you from experience in Washington that the fact that 85 percent as you indicated of the cheese that goes into the CCC comes from the Midwest is a heck of a much larger argument for a price cut that the Midwest bears the brunt of. That would be a target price with the payment cap that we said the deficiency payment was going to the family farmer in the United States. I want to make sure we all understand that. We don't automatically preclude the concept of target prices down the road as we respond to new technology which is going to increase production 30, 45 percent to come.

The second thing I think is we talked about the fact that you say if we don't have a purchase program it would be an incentive to eliminate the quota system on importing cheese. My guess is the deficiency payment would be just as strong an incentive to preserve the quota system on imported cheese as the present purchase program.

So all I'm saying is in the short term my understanding budgetwise we can't; timewise we can't; in terms of implementing the program, go to target prices today. But let's not preclude that option down the road.

Mr. **Reeves**. It's not our intent to preclude it. I guess my testimony went to the point of any proposed payments and the price effect that would have over the next 3 or 4 years.

Mr. **Gunderson**. Well, the administration's target price proposal is a bad proposal, and I hear that being said.

Mr. **Reeves**. That's what I was speaking to.

Mr. **Coelho**. Thank you, Mr. Gunderson.

Mr. **Jeffords**. Mr. Reeves, I would like to pursue your comments about the cost of Government because we have two price supports so close together. I do that primarily because I have a bill which would postpone that price cut until October so that we hopefully can deal with it in the farm bill. Maybe come up with another solution.

But one of the big reasons for doing that was my concern that having those price cuts so close together it would cause some of the profits you're relating.

It would be extremely helpful to me, and I guess your farmers and the taxpayers, if you could provide us with the kind of economic analysis you were referring to so that perhaps if we can't do anything else we could move that bill up.

Mr. **Reeves**. I will do my best to prepare that. I'll try to elicit some help from the Wisconsin and Minnesota State universities in this thing. My background is in economics, as Bob knows, as is his. I was adviser to President Johnson in dairy matters, and was on the Freeman Committee, Norris Committee, that studied Federal orders.

So what I speak about is not off the cuff. I've done a little work on it. I think it might be possible. I'll do my best within the next 2 weeks to get you something.

Mr. **Jeffords**. I would appreciate that.

Mr. **Coelho**. Thank you, Mr. Jeffords.

Mr. Huppert, I would like to just tell you that I happen to be one of those who feel very strongly about your discussion of the school milk program, and the impact the special milk program had by its elimination.

I can remember in 1981 speaking to the current Secretary of Agriculture about what would happen when you eliminate the pipeline in regard to dairy products, and that's what we've done. And we talk about all the other programs, all the problems that we have as a result of what's taken place, and what's causing some of the problems in the dairy industry today.

But when you take away sources of supply, take away a market as we did, that has a tremendous ripple effect on the industry. And we had the school milk program for two things. One, of course, is that it helped the dairy farmer. We knew that. But second, we knew that by providing for the special milk program you were providing for some special nutritional needs for children all across this country, and you were also developing some taste patterns that we needed to develop for the future of our industry.

By eliminating a lot of that the ripple effect takes place. We have had to fight the Defense Department in their desires to move away from milk product, the oil base products, for drink and eat. And so it's a trend on the part of the Government to move away from milk products. It does concern me. I appreciate your discussion of it. It is something that as chairman of this subcommittee I am very interested in, and Mr. Jeffords is the ranking member of the Education and Labor Committee which would have jurisdiction on this. Hopefully we can work together, the two committees, to try to bring it about again.

I do think that we can create an interest in the Congress, and hopefully can develop it. I appreciate your discussion very much.

I would like to say that the record for these hearings will remain open for 5 days. So if anybody wants to make any comments, submit them to the record, we'd be happy to have them. Feel free to do so, and you can, of course, work through Mr. Gunderson, Mr. Penny's office if you want, in order to get them to us.

I'd like to particularly thank Steve Gunderson for having his staff set up these hearings. We appreciate the hospitality of you and your staff very much, and we thank Tim Penny as well for getting the witnesses and making sure that this is a productive hearing.

As one who was born and raised on a dairy farm, milked cows for many years, I've always been interested in coming into this dairy haven to see the way you people think and so forth. I would just tell you that your concerns about the future of the dairy industry are no different than the concerns of the people in my area of California. There are comments all the time about the milk factories in California. I submit to you that there are family farmers in California who are as concerned about their future as the family farmers are here.

Hopefully we can work together to resolve our problems and not put up barriers against different regions of the country either legislatively or verbally because I don't think it helps out in trying to resolve our problems.

I'd also like to thank the Holmen High School for their facilities, particularly the principal, Tregg Mathison, for letting us use these facilities. We appreciate it very much.

I'd like to acknowledge the FFA Chapter here at the high school for their concession stand, and their interest in agriculture policy. Some of them were here. A lot of them were here earlier. We appreciate those of you that are still with us. After all you are our future agriculture leaders and we appreciate your interest and your concerns in participating.

Again, on behalf of the dairy subcommittee we appreciate everybody being involved and interested. Hopefully we can meet our deadlines, and hopefully as a result of your input, and your interest, we can come up with a program that makes sense not only for the dairy farmers, but for the American taxpayer and consumer.

Thank you very much.

[Whereupon, at 1:22 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

State of Wisconsin
DEPARTMENT OF AGRICULTURE, TRADE & CONSUMER PROTECTION

La Verne Ausman
- Secretary

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HOUSE AGRICULTURE COMMITTEE

SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY

Holmen, Wisconsin

April 11, 1985

La Verne Ausman, Secretary
Department of Agriculture, Trade and Consumer Protection

I want to welcome you to Wisconsin and thank you for making the special effort to take these hearings to the country. Obviously, I believe it is most appropriate that you come to Wisconsin. Wisconsin has been and continues to be a major producer of milk and milk products - 36 percent of the nation's cheese, 23 percent of the nation's butter, and 17.4 percent of the total milk supply being produced here. There is reason to believe this will continue.

Now to the business at hand - where do we go from here? The Dairy Diversion Program has ended. We are developing what, hopefully, will be long-term farm policy.

A quick review of what has happened seems appropriate. In 1983, milk production was a record 139.7 billion pounds. Government purchases equaled 16.8 billion pounds of milk equivalent at a program cost of $2.6 billion.

On January 1, 1984, we began the Dairy Diversion Program. It was given a fifteen month life span which ended April 1, 1985. What happened during that time?

- 20.3 percent of the dairy farmers participated nationally.
- Milk production decreased 3.1 percent from 139.7 billion pounds to 135.4 billion pounds.

- Consumption increased 3 billion pounds - a 2.4 percent increase.
- National milking herds reduced by 236,000 cows.
- Government purchases cut from 16.8 billion pounds milk equivalent in 1983 to 8.6 billion pounds in 1984. Government costs were cut 40 percent.
- Dairy farmer assessments generated enough money to make the diversion payments.
- Dairy farmers launched a substantive program of market research, promotion, and development financd by a 15¢ per hundredweight check-off. That's a commendable record considering that the Diversion Program lasted only 15 months and had a very hurried start. I have to ask, What more could have been done in such a short time?.

The current goals for government programs are to:

1. Reduce government cost.
2. Be market oriented and balance supply and demand.

What must now be recognized is that many dairy farmers are having difficulties servicing their debts. According to USDA, this is true not only in the midwest but all across the country.

Agriculture has become a very capital intensive industry. Dairying is especially so, requiring considerable housing and equipment that does not have an alternative use. Granted, excess capacity exists in dairy, but further farm income decreases have serious impacts for rural economies.

Considerable time is required to develop a good producing herd and the technical expertise to be proficient. Many times it is a lifetime endeavor. Our market is basically a domestic market. Ample world supplies and government policies, particularly the European Economic Community, limit our opportunities in the world market.

It has been our policy to attempt to maintain an adequate domestic supply of milk. I would see that as a good policy to continue. I don't see a big shakeout of dairy farmers serving any long-term public purpose.

Given that background, what direction should we go? I see little benefit in reducing milk prices further. By any measure, the consumer is not adversely impacted by the current price; in fact, milk and dairy products are a bargain. The increase in consumption last year would indicate that the consumer understands this and has reacted positively in the marketplace.

Maintaining current price levels and, hopefully, moving them up in the not too distant future, will require some method of supply management. That seems to be where the controversy begins. But I believe that dairy farmers now recognize that the alternative is lower incomes versus production discipline. Certainly, standby supply management programs, such as the diversion program, are a necessary part of future dairy policy.

Last fall, the Wisconsin Department of Agriculture, Trade and Consumer Protection conducted an opinion survey on the 1985 Farm Bill. The response was voluntary but 4,141 questionnaires were returned. Ninety five percent of those returning the questionnaire were dairy farmers. It was a good indication of dairy farmer attitudes. That survey showed:

- 62 percent believed that Dairy Diversion Program should be continued; 30 percent disagreed; 7 percent, no opinion.
- Only 40 percent believe price should be lowered to control production; 52 disagreed.
- 69 percent supported the continuation of a checkoff for promotion.

Dairymen in this state are saying - We assume some responsibility for managing the supply and are willing to finance that ourselves. They are also committed to building markets.

The National Association of State Departments of Agriculture (NASDA) at its Mid-Winter meeting, March 10-13, in Washington, DC, reviewed its position on the 1985 Farm Bill and issued the following statement (attached).

Forty five states were represented at that meeting. Note the section on income protection.

I would make these observations as a dairyman and Secretary of the Wisconsin Department of Agriculture, Trade and Consumer Protection.

1. The Dairy Diversion Program has wider support among dairy farmers today than it did when it was implemented. That might be the most important lesson for policy makers.
2. I don't believe there is support for mandatory bases. The opposition is mainly related to new producer entry and base values.
3. There is reason for the government to purchase a fixed amount of dairy products. Numerous government programs have need for the products. These programs provide a much needed element of stability in the marketplace for manufactured products.
4. Administration of a base program for dairy is very simple compared to field crops and now there is a precedent. It is based on pounds of production and there is little slippage. Milk records are easily obtained.
5. The sooner it is set up, the better we will be. Then don't adjust it every twelve months. One of the most destructive features of recent dairy policy has been the continuous uncertainty and short planning horizons within which our good farmers and plant operators have had to make critical business decisions. We need to establish a program and give it a chance to work.

While there are differences between dairymen, there is also a lot of agreement. I hear them asking for the self-financing tools to shape their destiny. That seems consistent with your goals. Now, to eliminate this constant uncertainty for dairy farmers, let's put a long-term program together.

(Attachment follows:)

National Association of State Departments of Agriculture
Food and Agriculture Bill Policy Statement
Washington, DC
March 11-12, 1985

It is generally concluded that the future supply of food and fiber for the people of the United States and other areas of the world may very well be threatened by the critical economic condition of the American farmer. In order to stabilize conditions in the agriculture community, we urge Congress, the United States Department of Agriculture, state departments of agriculture and the American people to join in a unified effort designed to provide immediate stability in production agriculture. We express our appreciation to concerned members of Congress. Further, we recognize the National Governors' Association for their efforts in addressing the farm problems and we endorse their recommendations with added emphasis that federal budget deficits must be reduced, but in an equitable manner across the board.

Considering the 1985 farm bill, NASDA recommends the following:

1. TRADE POLICY AND EXPORTS.

   We support the movement to a market-oriented system. To attain this goal we will need to establish a consistent and equitable international trade policy. That policy must give protection to the competitive position of United States' farmers consistent with that accorded farmers in foreign nations.

2. INCOME PROTECTION.

   The 1985 farm bill should ensure a measure of income protection, particularly to the mid-size full-time farmer or rancher, which may include target prices that support reasonable operating costs and income. A two-tiered pricing structure or other techniques should be reviewed. It should provide commodity groups access to supply management programs and establish clear, equitable procedures for producer referendums to determine whether supply control programs are an essential safety net.

3. CONSERVATION.

   A long term conservation program should be developed leading to a conservation reserve that would assist in bringing more into balance the supply and demand of agricultural commodities and to enhance alternative crops such as timber.

4. FARM CREDIT.

   Enhance programs for FmHA, the Farm Credit System, state agriculture finance systems and private banks that provide reasonable cost financing to farmers and ranchers.

5. LONG-TERM FOOD AND AGRICULTURAL POLICIES.

   Request the President and Congress to develop and adopt a long-term food and agricultural policy. These policies must incorproate domestic needs and international market development.

The Department of Agriculture, Trade and Consumer Protection supports this statement, in particular, the emphasis on preserving a unified effort designed to provide stability to production agriculture.

State of Wisconsin
DEPARTMENT OF AGRICULTURE, TRADE & CONSUMER PROTECTION

La Verne Ausman
Secretary

801 West Badger Road
P.O. Box 8911
Madison, Wisconsin 53708
608 266-1721

April 30, 1985

The Honorable Tony Coelho, Chairman
Committee on Agriculture
Subcommittee on Livestock, Dairy & Poultry
Room 1301, Longworth House Office Building
Washington, DC 20515

Dear Congressman Coelho:

At the congressional hearing in Holmen, Wisconsin, during the question and answer period following my testimony, the discussion involved the possibility of a long-term conservation reserve program. I would like to share with you some of my more detailed thoughts on this issue. I am also enclosing a research report that examines this approach in light of numerous alternatives. As I review these options, I can only come to the conclusion that this is one of the tools we should be using today to address a number of concerns facing agriculture.

Excess production and the impact on farm prices are causing severe economic problems in agriculture. How to control production has been a subject of considerable interest. Different programs have been implemented for the various commodities--milk, corn, wheat, cotton, tobacco, etc. While they have had an impact, the problem still persists.

I would like to address just one part of the problem but I believe it impacts on all of agriculture. The following U. S. Census information reveals what has happened.

U. S. CENSUS INFORMATION ON HARVESTED CROP LAND

	U.S.A.		WISCONSIN	
	Acres	% of all land	Acres	% of all land
1982	326,306,462	33.7	10,062,154	58.4
1978	317,145,955	31.3	9,863,051	55.3
1974	303,001,043	29.8	9,340,375	53.0
1969	273,016,000	25.7	8,133,840	44.9
1959	311,476,141	27.7	9,599,094	45.4
1950	344,564,497	29.7	10,112,027	43.5
1940	321,242,430	30.3	9,815,964	42.9

The Honorable Tony Coelho, Chairman
April 30, 1985
Page 2

You will note that harvested crop acres increased 1,928,314 acres in Wisconsin during the thirteen years between 1969 and 1982. This is 23.7 percent.

The harvested crop acres in the United States were increasing at a similar rate, 19.5 percent between 1969 and 1982. This amounts to 53,290,462 acres which is equivalent to five times the total harvested crop acres in Wisconsin.

In addition to expanding crop acres we increased production per acre, which only compounds the problem.

This all occurred in response to a market demand that has not plateaued at best and declined in certain areas.

I can only conclude that we are currently planting and harvesting more acres than we need.

I believe an effective way to address part of the problem would be a long-term conservation reserve.

1. It will generally attract fragile acres which has a positive conservation impact. Reverse the "sod-buster" activities.

2. Production will continue on the most productive acres which should have the lowest cost of production and therby enhance our competitive position.

3. Fewer landowners would need to participate to attain the same level of reduction. This should cut administrative costs. Farmers would have more options.

If you have any further questions, feel free to contact me.

Sincerely,

La Verne Ausman
Secretary

LA:dh

Enc.

RESEARCH REPORTS

Cropland acreage reduction alternatives: An economic analysis of a soil conservation reserve and competitive bids

Clayton W. Ogg, Shwu-Eng Webb, and Wen-Yuan Huang

ABSTRACT: Agricultural price support objectives and soil erosion control goals can be met at lower costs to the federal government through a long-term land retirement program than through the current annual acreage reduction programs, provided an effective program can be implemented. Moreover, crop production can be reduced and a significant portion of the nation's highly erodible cropland can be protected without a reduction in net farm income. One program alternative involves a competitive bidding system to idle highly erodible land. Groups of highly erodible and marginal soils are identified in this analysis of a long-term conservation reserve.

ANNUAL acreage reduction programs were a central feature of U.S. farm price support programs in 15 of the last 20 years. Sagging demand for U.S. exports, following a 20% increase in cultivated acres during the 1970s, creates pressures for acreage reduction in the years ahead. Yet, high program costs and failure to include much erodible land among the idled acres (8) has brought acreage reduction programs into the mainstream of farm policy discussions.

Changes in acreage reduction programs are contained in recent legislative initiatives. H.R. 3457, the Soil Conservation Act of 1984, which passed on a voice vote in the U.S. House of Representatives in May 1984, supported a long-term conservation reserve program for land eroding at excessive rates. A proposed bid system and other provisions were intended to reduce costs of price support programs and conserve soil as well. Six months earlier, Secretary of Agriculture John Block introduced an experimental conservation reserve, while making the integration of commodity price support and conservation programs a central feature of his administration's program and highlighting this as a 1985 Farm Bill issue.

Proposals to achieve consistency among farm programs concern the federal budget as well as soil erosion. This report, therefore, analyzes the costs of idling land under several policy options. Using data and computer programs assembled at Iowa State University as part of the Soil and Water Resources Conservation Act (RCA) process, we found that price support objectives can be met more cheaply by idling erodible land than by following current acreage reduction patterns. If other marginal land, such as dry, wet, or stony land, were allowed into a long-term program, price support objectives could be met at an even lower cost.

Our report of these findings first highlights the role of annual acreage reduction programs, noting the lack of much erodible land among the idled acres. We then use a linear programming model to analyze three cost-saving conservation reserve options: option 1 idles the least profitable land, option 2 focuses instead on erodible land, and option 3 retains a pattern similar to the acreage idled in the 1978 program. We compare the strengths and weaknesses of each option, then briefly analyze the cost-saving features of the bid system used throughout the analysis.

Costs of current programs

Acreage reduction is an optional feature of wheat and feedgrains programs announced annually by the secretary of agriculture. Current legislation permits the secretary to decide if farmers must retire a portion of their crop acreage to be eligible for deficiency payments, disaster benefits, and nonrecourse loans.

Acreage reduction is the device used in recent farm programs to avoid costly storage of surplus grain. But acreage reduction is costly. Crop diversion payments and deficiency payments, which, according to Agricultural Stabilization and Conservation Service data, averaged $104 per acre idled during the years 1977-1982, are a conservative estimate of the program benefits farmers received in return for idling a portion of their land. The 1983 program costs were much higher than $104 per acre because it was a much larger program. Because farm programs rely on acreage reduction, concern over high program costs logically centers on acreage reduction costs.

Renting land using more direct approaches costs much less than $104 per acre. Renting whole fields in the conservation reserve of the 1950s averaged $31 per acre, costing less than $30 (in 1982 dollars) in most states and always less than $50.[1] These costs were somewhat lower than the $44 it would cost to rent a likely mix of wheat and feed grain acres following the pattern taken in the 1978 acreage reduction program [based on applying the Economic Research Service rental series data (9) to 11 million wheat acres and 6 million feed grain acres]. Thus, acreage reduction costs under a conservation reserve run one-half to one-third of recent program costs, depending on whether we assume that annual programs idle land of average pro-

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Clayton Ogg, Shwu-Eng Webb, and Wen-Yuan Huang are agricultural economists with the Economic Research Service, U.S. Department of Agriculture, Washington, D.C. 20250. The views expressed are those of the authors and do not represent the official views of any agency or organization.

[1] Ogg, Clayton W., Arnold B. Miller, and Kenneth C. Clayton. "Agriculture Program Integration to Achieve Soil Conservation," an unpublished manuscript.

ductivity or more marginal acres, similar to land in the conservation reserve of the 1950s.

Erosion and price support programs

Idling land for several years offers far more opportunity to protect land from soil erosion. If long-term programs select erodible land for conserving uses, price support dollars achieve conservation objectives and protect water quality.

Such opportunities were largely ignored until 1984. This year, $16 million from the Agricultural Conservation Program (ACP) were used to idle land eroding at twice the soil loss tolerance level as part of price support programs. In exchange for a 90% cost-share for cover practices, this experimental program required farmers to idle land for contract periods of 5 or 10 years, achieving the dual objective of soil conservation and support for prices.

Previously, programs included a cross-section of soils and attained only modest protection for the idled acreage (8). Meanwhile, by raising prices, farm programs encouraged more intensive use of land and more soil erosion in some locations. For example, with federal support for prices, land plowed up during the high price years of the early 1970s continued in crop production during years of crop surpluses. Crop acreage even increased, according to U.S. Department of Agriculture (USDA) statistics, by as much as 5% a year, in the erosive Mississippi Delta and southeastern soybean-producing areas during the crop-surplus years of the early 1980s. Programs, therefore, missed opportunities to reduce erosion on highly erodible land and apparently helped to make erosion worse in some locations.

We thus selected two long-term acreage reduction options for analysis, the conservation reserve for highly erodible land and an option supporting prices at the lowest possible cost.

Crop surpluses vs. marginal land

A recent study identified 34 million acres that have such high potential for sheet and rill erosion that erosion control practices generally are not able to reduce soil loss to tolerable rates so long as the land remains in crop production (5). Other studies offer similar arguments using various definitions of highly erodible land. These studies emphasize the concentration of erosion damage on critical areas.[2]

Designation of crop acres for retirement, in addition to focusing on highly erodible land, would logically consider which crops are currently in surplus and avoid damage to local businesses from retiring too much land in any one locality (6). Our study, therefore, idles 2 wheat acres for every acre of corn or soybeans to meet price support program needs (2).[3] This is roughly the crop mix for idled land in recent price support programs. Because corn and soybeans account for most of the highly erodible land, our analysis includes the maximum erodible acreage of these two crops consistent with price support needs. We assumed that soybean and feedgrain markets adjust quickly, regardless of which crop is idled.

Table 1. Land groups and their crop yields.

Land Group	Land Capability Class (LCC)* or Erosion Designation	Average Corn Yiel In the Model (bu)
1	LCC I	109
2	LCC IIw, IIs, IIc, IIIw, IIIs, IIIc, IVw, IVs, IVc, V	67
3	LCC IIe, IIIe and IVe; RKLS under 50†	97
4	LCC IIe and IIIe; RKLS over 50	65
5	LCC IVe; RKLS over 50	79
6	LCC VI, VII, and VIII	37
Weighted average yield		102

*LCC designations I-VII indicate the severity of the soil's problem for crop uses; subscripts w, s, and c indicate whether the problem is due to wetness, stoniness, or erodibility.

†RKLS is the product of the rainfall, erodibility, slope length, and slope factors in the universal soil loss equation (17). An RKLS of 50 implies 15 tons of soil loss per acre under average management.

Land groups in the LP model

Our acreage reduction analysis combined the purely physical criteria for severely erodible land described by Bills and Heimlich (and later in this report) with the land capability class (LCC) system developed by the Soil Conservation Service (SCS) (3). The LCC system identifies soils with wetness and other problems in addition to susceptability to erosion. These less profitable or marginal lands compete with erodible land for program dollars under our first and third conservation reserve options (the least-cost and 1978 pattern options).

The first two land groups and the sixth land group developed for our study were based solely on land capability class (Table 1). Land group 1 consists of Land Class I, the most productive land. Land group 2 includes wet and stony soils suitable for a marginal land reserve because of low productivity, not because of erosion problems. Land group 6, on the other hand, is a relatively small, unproductive area (about 5 million acres) made up of land capability subclasses identified by SCS as inherently unsuitable for crop production because of the fragile or erodible nature of the soil (classes VI, VII, and VIII).

We divided the remaining cropland into three soil groups based on actual erosion potential using the product of the rainfall, erodibility, slope length, and slope factors (RKLS) in the National Resources Inventory (NRI) (10). Most highly erodible cropland is in land group 4, which consists of land in classes IIe and IIIe with RKLS factors greater than 50. (Land with an RKLS factor greater than 50, which implies 15 tons of erosion per acre, would be difficult to treat under management identified in the 1977 NRI.) Land group 5 contains class IVe land with an RKLS greater than 50. Land group 3 includes the remaining (less erodible) land in classes IIe, IIIe, and IVe. Land groups 4 and 5 accounted for about three-fourths of the excessive soil loss from sheet and rill erosion in the United States in 1977.

The LP model. Yields on each land group were based on weighted average state yields during 1979-1981, adjusted according to land capability class and erosion potential using an approach described by English, Alt, and Heady (3). An unpublished 1973 yield survey conducted by SCS provided these yields by land capability class and erosion potential (3). For example, soils on the steeper land groups 4 and 5 have 15 to 20% lower yields than on average land for several reasons, including moisture and nutrient losses and previous erosion damage (Table 1). Budgets originally based on the Federal Enterprise Data System (FEDS) were matched to yields on our new land groups using fertilizer response curves as described by English, Alt, and Heady (3, 7).

The model contains 105 production areas and 11 crops: corn, soybeans, wheat, cotton, sorghum, barley, legume hay, nonlegume hay, corn and sorghum silage, and oats. Cropping activities in the model consist of a crop rotation produced on a land group under either conventional or reduced tillage. These activities are selected based on profitability.

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[2] Ibid.

[3] Lee, John E. 1984. "Farm Policy for Uncertain Times and an Unknown Future," presented April 11 at a symposium, "Farm Policy for Uncertain Times," in Wayzata, Minnesota

Advantages of the land groupings. A previous study by Boggess and Heady analyzed an acreage reduction program for erosive land based solely on the LCC designations in the national model at Iowa State University, which also was used in the RCA studies (*1*). They were surprised that idling the most erodible land in their model did not greatly reduce U.S. erosion.

The new NRI data in our six land groups represents far better the concentration of erosion on a small area in our land groups 3 and 4, thus the gain from focusing acreage reductions on erodible land. Comparing the 20 million most erodible acres identified under the LCC system (classes IVe, VIe, and VIIe) used in the Boggess and Heady study with cropland identified by the NRI as having the highest actual sheet and rill erosion, we found five times as much erosion per acre in the latter. Most land eroding even at rates exceeding 25 tons per acre is in classes II and III rather than IVe, VIe, and VIIe.

The base solution

The base solution of the model represents current cropping patterns in the absence of a conservation reserve program; the three conservation reserve options then remove land from the base solution. Crop production was limited below 1982 production levels for each production area in the base solution of the model. Except for soybeans, crop prices were set at 1985 target prices.[4] This produced solutions within a few percentage points of 1982 production levels for all major crops except cotton.

Cotton in the base solution occupied 3 million acres less than the actual 1982 level; the largest gap occurred in Texas. Erosion on cotton land in our base solution was considerably below the level estimated in 1977. Wind erosion averaged about 30 tons per acre for Texas cotton and accounted for virtually all the wind erosion for cotton. Texas is a pivotal cotton area that has experienced large fluctuations in production. For example, after disaster relief programs replaced allotments in 1972, a historic decline in Texas cotton acreage reversed; 2 million acres came back into production in the state, according to USDA statistics. With current policies phasing out disaster relief programs, the model's relatively low estimate of the erodible cotton acreage appears realistic for the 1980s. Disaster payments to cotton growers in Texas averaged more than $11 per acre between 1973 and 1978, and payments per acre tended to be highest in the most erosive counties.

Therefore, we accepted the base solution's findings that erodible cotton land could be protected at low cost if cotton were included in a conservation reserve or that cotton acreage reductions in areas susceptible to drought or hail might occur without a reserve for cotton. Our analysis turned then to the acreage reduction alternatives for corn, soybeans, and wheat, including the option for reducing sheet and rill erosion.

Comparing the reserve options

Having a model with highly erodible land and other marginal land that might be idled at low cost, the next step required designating a production adjustment for each crop. The reduction in each crop's production was the same for each of the three options (least cost, targeted, and 1978 pattern) to make results comparable.

Based on the analyses of crops in surplus, we idled the production equivalent of 11 million acres of wheat, 4 million acres of corn, and 2 million acres of soybeans. These acres times 1982 yields for the three crops constituted the production removed from the base solution of the model under each option.

A bid system was then used for each of the three policy options. Under the bid system, farmers submit competitive bids. Given the necessary limit on funds in each ASCS office, we assumed that bids are competitive and represent the profits attainable from each parcel of land. We also assumed that owners of erodible and marginal land participate in the program (an important assumption) and that this land can be identified and idled as whole fields or portions of fields. We, therefore, removed the least profitable land from the base solution using the land groups and pattern permitted under each of the three options. After comparing results for the three conservation reserve options, we then compared the bid system with the offer system used in the conservation reserve of the 1950s. The offer system paid the same rent per idle acre for farmers in each area.

Option 1: The least-cost option. The least costly acreage reduction pattern (option 1) achieves production reductions for 35%, roughly $300 million, less than idling land according to the 1978 pattern (option 3).[5] Similar to the conservation reserve of the 1950s, the largest acreage reductions occur in production areas having low profits per acre, such as the Southern Plains Region (Table 3).

Option 1 obtains twice as much of its production reduction from land groups 4, 5, and 6 as did the 1978 acreage reduction pattern. This difference is not surprising because current programs focus on productive regions, while yields are 15 to 20% be-

Table 2. Acreage reductions in 10 producing regions under three acreage reduction options, three crops.

	Options								
	Corn			*Soybeans*			*Wheat*		
Region	*1. Least Cost*	*2. Targeted*	*3. 1978 Pattern*	*1. Least Cost*	*2. Targeted*	*3. 1978 Pattern*	*1. Least Cost*	*2. Targeted*	*3. 1978 Pattern*
	%								
Northeast	0	1.2	3.6	0	0	0.5	0	1.8	0.1
Appalachian	1.0	1.3	2.5	0	7.8	5.1	3.0	10.0	0.1
Southeast	20.7	.2	2.2	7.3	18.8	4.9	4.5	7.5	0
Delta States	0	0	0	2.8	8.4	5.2	5.0	9.7	0
Corn Belt	15.1	57.2	22.5	34.5	23.2	49.7	7.2	15.0	2.0
Lake States	12.2	12.2	16.0	26.4	.8	14.9	6.5	6.9	7.8
Northern Plains	1.0	0	36.1	1.0	0	16.5	26.9	9.5	43.4
Southern Plains	43.5	27.9	11.2	27.9	41.0	3.2	34.5	19.9	22.5
Mountain	6.4	0	4.7	0	0	0	6.7	13.9	17.4
Pacific	0	0	1.2	0	0	0	5.6	5.8	6.5
Total	100	100	100	100	100	100	100	100	100

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[4] Because there is no target price for soybeans, the 1982 soybean price was adjusted by the ratio of the 1985 target price for corn to the 1982 corn price (*12*). Obviously, drought or shifts in world demand could change all these prices and thus the cost of idling land, but the focus of this analysis is on cost comparisons between policy options rather than absolute costs of any one option.

[5] Relative cost comparisons between conservation reserve options will remain reliable even as prices change. Rental cost data presented earlier were used earlier in the paper for making absolute comparisons between conservation reserve and current program costs because these data were not influenced by prices and assumptions used in the modeling analysis.

low average on the erodible land groups 4 and 5 (Table 1). Allowing farmers the opportunity to idle more land in less productive areas naturally draws some of this less productive, erodible land into the programs.

Option 2: Focusing on erosive land. Accepting bids for erodible land first in option 2 protects even more erodible land than option 1. In fact, all of the production adjustment in option 2 (Table 3) comes from highly erodible land except for some wheat land. Within the context of current price support objectives (*2*), there is not enough highly erodible wheat land to meet production reductions needed to support wheat prices.

The 22 million acres idled in option 2 include about half of the nation's highly erodible land identified in the Bills and Heimlich study (*5*). This land accounts for about 40% of the erosion from cultivated land that exceeds 5 tons per acre.[6] Option 2 draws much more from erodible land than option 1 because option 1 is open to relatively nonerodible land that has wetness, droughtyness, or other problems that reduce profitability. This availability of marginal land for a reserve is substantiated by the performance of the conservation reserve program in the 1950s, which idled vast acreages of unproductive land in relatively nonerodible areas.[7]

Option 2 also gets fairly high marks from a program cost standpoint. The cost is 18%, around $150 million less than the 1978 pattern for idling land. But comparison of this 18% to the 35% savings of option 1 over option 3 suggests that erodible land in many cases is not the least profitable land, even though highly erodible land is less profitable land than average.

Highly erodible land occurs in most producing regions (Table 2), disproving the notion that erodible land is concentrated in a few small areas. If erodible land were indeed concentrated in a few small areas, local businesses might suffer in these areas as land is protected from erosion. Other research has shown that program acre limits as low as 15% of the acres cropped in a county would not prevent the nation from protecting most highly erodible land (*6*).

Option 3: Following the 1978 pattern. The main advantage of the 1978 pattern, option 3, is continued USDA contact with farmers accustomed to participating in farm programs. But the bid system eliminates windfalls to current participants by encouraging each farmer to offer his land for what it is able to earn in the market. The bid system thus offers cheap price support for all farmers rather than an income transfer to program participants.

As noted, the 1978 acreage reduction pattern is less effective than the other two options from both the cost and environmental standpoints. Lack of erodible land under current acreage reduction patterns is substantiated by a USDA study of the 1983 PIK (payment in kind) program (*8*) and a study based on the 1978 program (*6*).

Under option 3, 21 million acres are required to achieve the production equivalent of 17 million average acres because of the bid system's focus on less productive land, even when constrained to the 1978 pattern. Once again, the less profitable land is not necessarily the most erosive.

Table 3. Crop production reduction by land group under alternative reserve options.

Land Group	Base Run	Options: Difference from Base Run 1. Least Cost	2. Targeting Fragile Lands	3. 1978 Patterns
	million bushels			
Corn				
1	5,055.3	23.0	0	31.4
2	524.1	158.6	0	142.9
3	1,787.5	102.1	0	162.9
4	504.8	111.8	289.7	36.2
5	110.0	6.2	110.0	26.5
6	1.9	1.9	1.9	1.7
Total	7,983.6	401.6	401.6	401.6
Soybeans				
1	853.2	0	0	1.9
2	145.2	32.8	0	30.3
3	675.2	6.2	0	9.2
4	175.8	7.8	35.9	4.6
5	39.5	9.1	20.0	10.4
6	522.5	.5	.5	0.0
Total	1,889.4	56.4 56.4	56.4	
Wheat				
1	378.3	6.5	6.5	13.9
2	541.4	111.7	79.8	215.8
3	1,366.7	170.3	105.6	109.8
4	132.4	46.8	132.4	8.1
5	26.1	15.0	26.1	6.4
6	10.4	10.4	10.4	6.8
Total	2,453.3	360.7	360.8	360.8

Other policy issues

Each of the three options employ a bid system rather than the offer system used in the past conservation reserve. Under the offer system, the least profitable land in each state received the same rental payment from the government as the better land. This resulted in a windfall for the landowner and higher program costs. For option 1, which idles the least profitable land, we estimated the cost of paying each farmer what it would cost to idle the most costly acres of each crop rented under option 1. This "offer system" resulted in 25% higher costs than the bid system. Rental payments for the 25.6 million acres rented under option 1, based on actual offer system payments in 1980, would be $31 per acre or $793 million, suggesting a $300 million savings by using the bid system.

Doubling the size of the program. Idling land periodically rather than using long-term acreage reductions requires more land in the years programs are in effect to achieve the same level of price support as a continuous program. This means bidding for more costly land. To estimate costs of the larger program, the production reduction in each production area was doubled for the pattern of idled acres in option 3. To obtain this doubling of production reduction it costs 2.3 times as much. This suggests the value of anticipating crop surpluses, if possible, rather than waiting until a large program is required.

Quotas, acreage allotments, and fragile land restrictions. Acreage reduction alternatives used in the past, and used currently for certain crops, also include production quotas and acreage allotments. Although detailed proposals are not available, wheat and feed grain acreage restrictions would likely follow the pattern of current grain price support programs, and therefore, produce modest erosion reduction benefits. Erosion impacts would be similar then to our option 3.

Another policy that would reduce production is a mandatory restriction on the use of highly erodible land. Policies re-existing use of fragile cropland seem unlikely at this time. Nevertheless, option 2 gives some indication of the costs, erosion reductions, production changes, and land use changes anticipated from such a regulatory policy.

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[6] If we assumed that the most erodible land is idled first, the idled acreage would account for considerably more than 40 percent of the damaging sheet and rill erosion.

[7] Ogg, Clayton W., Arnold B Miller, and Kenneth C. Clayton. "Agricultural Program Integration to Achieve Soil Conservation." Manuscript in review

Other topics. The NRI data and the economic information assembled for this study are relevant to many other policy choices facing U.S. agriculture. Export subsidies, for example, would affect use of land,[8] especially the less marginal and erosive land groups identified in the model. Many other options may be discussed in the coming months, and erosion consequences will be a concern. Conservationists have progressed in the last 2 or 3 years from knowing little about how farm policy affects soil resources to knowing more about resource aspects of farm policy than other consequences—such programs consequences for prices and exports!

Conclusions

Annual acreage reduction programs are costly because they idle large portions of agricultural resources in the more profitable farming areas. A conservation reserve for erodible land would reduce production at much less cost than either current annual programs or a conservation reserve that followed the same pattern for idling land as current programs. (These results are based, respectively, on actual or simulated rental costs without including administrative costs.) About half the land needing to be in cover crops can be protected simultaneously with reducing net outlays for acreage reduction programs. The highly erodible land groups idled in our conservation reserve option focusing on erodible land accounted for about 40% of the annual sheet and rill erosion over 5 tons per acre in the United States in 1977.

Further cost savings are attainable by idling, instead, the least profitable cropland in the conservation reserve. Budget savings from more efficient land retirement patterns come at no reduction in net farm income. Instead, taxpayers capture the gains from more efficient land use.

Acreage reduction decisions are shaped finally by market conditions, response from trade competitors, and many other factors in addition to the cost and environmental relationships described here. But, program costs and consistency between conservation and commodity programs have become major policy issues, emphasizing the value of objective economic analysis of acreage reduction alternatives.

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[8] [illegible], June 6, 1983. "Implications of [illegible] Export Subsidy," unpublished manuscript.

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Using the USLE to estimate the physical carrying capacity of natural areas for outdoor recreation planning

Fred R. Kuss and John M. Morgan III

ABSTRACT: A method for estimating the physical carrying capacity of natural areas for outdoor recreation planning takes into account soil characteristics, topographic variation, rainfall duration and intensities, and vegetative characteristics. The method, based on the universal soil loss equation, recognizes the importance of maintaining long-term soil productivity, preventing erosion losses from reaching critical levels in forested environments, and preventing aesthetically displeasing modifications of the natural character of these environments. The method assumes that a minimum standard of 70% groundcover in contact with the soil surface would be an acceptable management direction to preserve the character of natural areas used for outdoor recreation.

In many forests and parks, particularly those with high visitation rates, the limited capacity of natural areas to accommodate increased recreational use impairs the natural character and productivity of these areas. In response to these concerns and to the need for more effective planning, the National Park Service and the U.S. Forest Service have been mandated to determine the carrying capacity on specified federal lands (13).

Here, we present a method for estimating the physical carrying capacity of natural areas for outdoor recreation planning. The method, which represents an alternative for classifying recreational environments, is based on the universal soil loss equation (USLE) (8, 9).

Background

Although many researchers have dealt with recreational impacts on natural areas, progress in estimating physical capacity has been slow (17). While the concept has both a sound theoretical and scientific basis, methods currently used for classifying land for outdoor recreation have not incorporated the concept (15). Yet, there is ample evidence that recreational overuse has caused soil-induced pathological damage to trees (11), heavy erosion on high-use areas (9), impermeable crusts of soils (10), and destruction of sensitive and fragile areas (3).

Recently, the importance of soil properties as primary determinants for character

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STATEMENT OF
CHARLES SCHOLL

I am Chuck Scholl, a dairy farmer from [illegible], Minnesota. I appreciate the opportunity to discuss some of the concerns I have with respect the 1985 farm bill. I am a member of the Corporate Board of Directors of Associated Milk Producers, Inc. and also serve on the Board of Directors of National Milk Producers Federation.

There has been a good deal of discussion regarding the possible dairy provisions of the 1985 farm bill. The administration has proposed a program which, in my judgement, represents a dismantling of the Dairy Price Support Program that has effectively served producers and consumers for the past 35 years.

In addition to the price support question, the administration has recommended inclusion of a directive to the Office of Special Trade Representative calling for negotiation of reductions in trade barriers by U. S. trading partners in exchange for reductions in U. S. trade limits. Dairy farmers are gravely concerned that this would be used as a means of eliminating any effective limits on dairy product imports. We are currently faced with expanding imports of casein which erode dairy farmers' markets and add to the cost of the price support program. Making the U. S. a dumping ground for subsidized exports of world dairy surpluses is not sound policy from any standpoint.

Members of this Subcommittee participated in developing the so-called dairy compromise in 1983. This legislation provided dairy farmers with important self-help tools to meet the pressures of expanding production and rising government costs under the price support program. The promotion program has quickly moved to begin the national effort to expand sales of milk and dairy products. This is an effort the industry has sought for a long time.

The milk diversion program made important strides in relieving the cost pressures on the price support program. Milk production began to decline the day the program started. During 1984, price support program costs were cut by more than a billion dollars from the 1983 level. At the same time, CCC dairy product purchases were cut by almost one-half.

This is an impressive record. Under normal circumstances, one would expect the administration and Congress to seek extension of a program with such a record. While AMPI does not advocate a simple extension of the diversion program as part of the farm bill, we feel very strongly that its demonstrated success makes inclusion of the strongest possible standby supply management provision a necessary part of price support policy in that legislation.

Frankly, the diversion program could be improved. There were a number of weaknesses that prevented participation from being greater. Farmers were concerned over the restrictions on the sale of livestock. The rules issued in connection with the program were changed several times during the signup period and the resulting confusion discouraged participation. There was concern over the possible penalties for failure to comply with the program. Further, it was a new concept to dairymen and many did not fully understand its application.

With the experience of the past 15 months, improvements could be made in the program. AMPI has been working within the framework of National Milk Producers Federation to obtain the broadest possible support for the best supply-management provision possible. As part of that effort, we advanced what is known as the two-tier price program for consideration. Frankly, this program would meet these problems. Further, it is a simple, direct means of addressing the problem.

Progress is being made within National Milk to obtain the broad industry support necessary for dairy provisions of the farm bill. As I stated, we feel it is essential that an effective standby supply-management element be part of the 1985 farm bill dairy provisions.

Maintaining the purchase type program as the basis for effective price support policy is also an essential. The price stability afforded by the program has been the foundation of the productivity gains of the industry over the past three decades. It has also been important to the consumer. The success of the program in this regard is easily seen in the fact that the Consumer Price Index for dairy products has increased markedly less than the CPI for all food or the total CPI. The price support program has actually been a big factor in restraining food price inflation by assuring adequate supplies of these basic food products at reasonable prices.

There is a critical need to address the problem of farm income today. The attention directed at what was termed the farm credit crisis in recent weeks actually was focusing on a basic inadequacy of farm income. While much has been said about the inability to deal with income problems stemming from the value of the dollar, the federal deficit and interest rates within the framework of the farm bill, this should not be an excuse to fail to address the issue where possible. We feel this is emminently possible in the case of dairy policy.

Secretary Block recently exercised the authority granted in the 1983 legislation to reduce the price support level by 50 cents on April 1. Actually, in the case of milk processed into cheese, the reduction will amount to more than that. Inclusion of a 10 cent per hundredweight whey credit means the CCC purchase price for Cheddar cheese in 40 pound blocks was reduced 6 cents per pound. That translates into a 60 cent per hundredweight support price cut. The whey credit is to be recovered from the value of whey products ~~recovered~~ remaining from the cheese making process. With the present weak market for dry whey and the prospect for little recovery, this is doubtful.

Further, the purchase price spread between Cheddar cheese in 40 pound blocks and barrel cheese was increased from 3 cents to 4.25 cents per pound. This adds another 12 to 13 cents to the shortfall farmers selling their milk to plants making barrel cheese will face. Altogether, the two actions could make the price support reduction total 72 or 73 cents for these farmers.

The Dairy Price Support Program has been an effective program for the dairy farmer, the consumer and government. Recent problems with the program do not indicate its failure or inadequacy of the basic program. What needs to be done is to take this opportunity to adapt price support policy to changing needs and conditions. The experience of the past 15 months affords the background and information needed to accomplish that in a manner that will maintain the stability needed by the industry while providing the opportunity for improved farm income.

(Attachments follow:)

Proposed Dairy Provisions of the 1985 Farm Bill

TWO-TIER PRICE PROGRAM

March 1985

THE CONCEPT OUTLINED IN THIS PAPER IS PROPOSED AS PART OF THE DAIRY PROVISIONS OF THE 1985 FARM BILL. IT WOULD WORK WITH THE PROPOSED NEW DAIRY PARITY FORMULA WHICH REFLECTS THE COSTS OF PRODUCING MILK. THE TWO-TIER PRICE PROGRAM WOULD PROVIDE STANDBY SUPPLY MANAGEMENT AUTHORITY TO BE USED ONLY WHEN ANTICIPATED MILK PRODUCTION EXCEEDS MARKET NEEDS AND A REASONABLE RESERVE.

THE TOTAL CONCEPT IS DESIGNED TO:

... MAINTAIN MILK PRODUCER'S INCOME

... RESTORE AND MAINTAIN AN ACCEPTABLE SUPPLY/DEMAND BALANCE

... PLACE A CAP OR LIMIT ON GOVERNMENT COSTS

... ASSURE ADEQUATE SUPPLIES OF U. S. PRODUCED MILK AT REASONABLE PRICES

THE TWO-TIER PROGRAM WOULD BE:

... VOLUNTARY IN THAT THE INDIVIDUAL PRODUCER WOULD MAKE THE DECISION AS TO PRODUCTION LEVELS ON THE FARM.

... FULL PARTICIPATION IN THAT PRODUCERS MARKETING MILK IN EXCESS OF MARKET NEEDS WOULD CONTRIBUTE TOWARD FUNDING COMMODITY CREDIT CORPORATION REMOVALS ASSOCIATED WITH THE SURPLUS THROUGH A LOWER PRICE ON EXCESS MARKETINGS.

WHEN FORECASTED SURPLUS IS GREATER THAN GOVERNMENT PROGRAM NEEDS PLUS A REASONABLE MARKET RESERVE (APPROXIMATELY 5.0 BILLION POUNDS) AND THE TEMPORARY SUPPLY MANAGEMENT PROGRAM IS TRIGGERED, THE PRODUCER WOULD RECEIVE TWO PRICES FOR MILK. HE WOULD BE PAID:

... THE FULL MARKET PRICE FOR MARKETINGS EQUAL TO THE FARM'S MARKETING HISTORY MULTIPLIED BY A FACTOR WHICH REPRESENTS MARKET NEEDS.

... A REDUCED PRICE FOR MARKETINGS IN EXCESS OF HIS ADJUSTED MARKETING HISTORY.

THE PRICE SUPPORT LEVEL WOULD BE DETERMINED UNDER A REVISED DAIRY PARITY FORMULA. FOR THE 1985/86 MARKETING YEAR, IT IS ESTIMATED THAT THE PRICE SUPPORT LEVEL WOULD BE $13.28 PER HUNDREDWEIGHT.

MECHANICS OF THE PROGRAM:

... PRIOR TO THE BEGINNING OF THE MARKETING YEAR, THE SECRETARY OF AGRICULTURE WOULD DETERMINE THE PRICE SUPPORT LEVEL FOR THE YEAR AND MAKE ESTIMATES OF MARKETINGS AND COMMERCIAL DEMAND FOR THE COMING YEAR.

... IF THIS FORECAST ANTICIPATES THAT THE PRICE GENERATED BY THE DAIRY PARITY FORMULA GENERATES CCC REMOVALS OVER 5.0 BILLION POUNDS, THE SECRETARY WOULD IMPLEMENT THE TWO-TIER SUPPLY MANAGEMENT PROGRAM.

IMPLEMENTATION OF THE PROGRAM:

... ANNOUNCEMENT OF THE PRICE SUPPORT LEVEL AND APPLICATION OF THE TWO-TIER PRICE PROGRAM WILL BE MADE BY SEPTEMBER 15.

... TOTAL MARKET HISTORIES WOULD BE COMPARED WITH THE NECESSARY TOTAL REDUCTIONS.

... IF PRO-RATA REDUCTIONS ARE REQUIRED, THEY WOULD BE MADE TO EACH PRODUCER'S HISTORY.

... AS PART OF THE PROGRAM ANNOUNCEMENT, THE SECRETARY WILL ESTABLISH THE PRICE REDUCTION TO BE APPLIED TO MILK MARKETED IN EXCESS OF THE MARKET PERCENTAGE.

... THIS REDUCTION WILL BE SUFFICIENT TO MEET THE CCC COST OF EXCESS REMOVALS.

... THE GOVERNMENT RESPONSIBILITY WOULD BE INCREASED BY THE AMOUNT OF ANY TEMPORARY OR PERMANENT EXPANSION OF DAIRY IMPORT QUOTAS.

... THE SECRETARY COULD RAISE THE MARKET PERCENTAGE OR END THE PROGRAM ENTIRELY DURING THE MARKETING YEAR IF NECESSARY TO ASSURE AN ADEQUATE SUPPLY OF MILK NATIONALLY.

... A YEAR-END RECONCILIATION WOULD BE AVAILABLE TO ANY PRODUCER WHO HAD PRICE REDUCTIONS MADE IN ONE MONTH OFFSET BY LATER MARKETING REDUCTIONS.

ESTABLISHMENT OF A MARKETING HISTORY:

... EACH DAIRY FARMER WILL HAVE THE FARM'S MARKETING HISTORY ESTABLISHED THROUGH THE COUNTY ASCS OFFICE. IF THE TWO-TIER PRICE PROGRAM WERE IN EFFECT FOR SUCCESSIVE YEARS, THIS HISTORY WOULD BE USED FOR BOTH YEARS. A NEW HISTORY WOULD BE ESTABLISHED IF THE PROGRAM WAS TRIGGERED FOLLOWING A BREAK IN ITS APPLICATION.

... THE MARKETING HISTORY WOULD BE THE MARKETINGS FOR THE 12 MONTHS (JULY THROUGH JUNE) PRIOR TO IMPLEMENTATION OR, AT THE PRODUCER'S OPTION, THE AVERAGE OF THE TWO PROCEEDING JULY THROUGH JUNE PERIODS.

... THERE WOULD BE NO ADJUSTMENTS FOR HARDSHIPS, BUT THOSE WHO PARTICIPATED IN THE MILK DIVERSION PROGRAM OR IN AN EARLIER TWO-TIER PRICE PROGRAM WOULD HAVE THEIR HISTORIES ADJUSTED UPWARD TO REFLECT THOSE REDUCTIONS.

... NEW PRODUCERS WOULD HAVE A HISTORY WHICH IS 75 PERCENT OF THEIR DAILY DELIVERIES ON AN ANNUALIZED BASIS. TRANSFERS OF HISTORY WOULD BE ALLOWED ONLY UNDER THE LIMITED TERMS PERMITTED UNDER THE MILK DIVERSION PROGRAM.

... THE ESTABLISHED MARKETING HISTORY WILL BE CERTIFIED TO THE COOPERATIVE MARKETING THE PRODUCER'S MILK OR TO THE HANDLER TO WHOM THE FARMER SELLS HIS MILK. THE COOPERATIVE OR HANDLER WOULD PAY THE PRODUCER ON THE BASIS OF THE ADJUSTED MARKETING HISTORY AND REMIT ANY REDUCTIONS FOR EXCESS MARKETINGS TO THE COMMODITY CREDIT CORPORATION.

MILK SUPPLY AND DEMAND, GOVERNMENT COST AND FARM INCOME

... CONSERVATIVE ESTIMATES OF MILK PRODUCTION, CONSUMPTION AND COMMODITY CREDIT CORPORATION DAIRY PRODUCT PURCHASES FOR THE 1985/86 MARKETING YEAR PROJECT CCC PURCHASES AT 7.7 BILLION POUNDS WITH THE TWO-TIER PROGRAM IN EFFECT. THE COST OF THESE PRODUCTS WOULD BE $1,313 MILLION.

... UNDER THE TWO-TIER PROGRAM, A NATIONAL MARKETING HISTORY OF 136.6 BILLION POUNDS WOULD APPLY FOR 1985/86. THIS REPRESENTS ESTIMATED MARKETINGS DURING JULY 1984 THROUGH JUNE 1985 AND FULLY RESTORES DIVERSIONS CONTRACTED FOR UNDER THE MILK DIVERSION PROGRAM.

... THE MARKET PERCENTAGE IS DETERMINED BY CALCULATING THE LEVEL OF MARKETING HISTORY REQUIRED TO REDUCE GOVERNMENT OUTLAYS FOR DAIRY PRODUCT PURCHASES TO THE COST OF PURCHASING 5.0 BILLION POUNDS OF MILK. THE RESULT IS ROUNDED TO THE NEAREST WHOLE PERCENTAGE POINT. IN THE ILLUSTRATION, THE MARKET PERCENTAGE IS DETERMINED TO BE 95 PERCENT.

... NET MARKETINGS IN EXCESS OF PRODUCERS' ADJUSTED MARKETING HISTORY ARE ESTIMATED AT 3.1 BILLION POUNDS MILK EQUIVALENT, ADDING $449 MILLION TO PROGRAM COSTS. WHILE THIS IS INCLUDED IN THE ABOVE COST, IT DOES REPRESENT THE INCREASE IN PROGRAM COSTS DUE TO SOME PRODUCERS NOT HOLDING PRODUCTION AT THEIR ADJUSTED MARKETING HISTORY.

... THIS COST INCREASE WOULD BE MET BY A PENALTY ON MARKETINGS IN EXCESS OF THE ADJUSTED MARKETING HISTORY. A FEE OF $8.47 PER HUNDREDWEIGHT ON THOSE MARKETINGS WOULD BE NECESSARY TO COVER THE INCREASED COST.

A PRIMARY REQUIREMENT OF ANY PROPOSED DAIRY PROVISION FOR THE 1985 FARM BILL MUST BE BUDGET RESTRAINT. A SUPPLY-DEMAND ANALYSIS FOR THE 1985/86 MARKETING YEAR INDICATES THAT THE TWO-TIER CONCEPT WOULD ACCOMPLISH THIS AS WELL OR BETTER THAN ANY PROPOSED PLAN.

Price Support ($ per cwt)	13.28
All Milk Price ($ per cwt)	14.28
Market Percentage (%)	95%
Marketings (Bil. lbs.)	132.9
Imports (Bil. lbs.)	2.6
Beginning Stocks (Bil. lbs.)	5.2
Total Supply (Bil. lbs.)	140.7
Ending Stocks (Bil. lbs.)	5.2
Commercial Disappearance (Bil. lbs.)	127.8
Total Demand (Bil. lbs.)	133.0
CCC Removals (Bil. lbs.)	7.7
Cost of Removals (Mil. $)	1,313.0
Offsetting Fee Collection (Mil. $)	449.0
Net CCC Removal Cost (Mil. $)	864.0

THE PROGRAM ACHIEVES BUDGET RESTRAINT AND MAINTAINS FARM INCOME BY OFFERING PRODUCERS INCENTIVES TO ADJUST PRODUCTION TO MARKET NEEDS. THE FOLLOWING IS A COMPARISON OF PRODUCERS SITUATIONS WITH THE TWO-TIER PROGRAM DURING THE 1985/86 MARKETING YEAR AND UNDER A SUPPORT PRICE OF $11.60 FOR THE YEAR.

	[illegible]		[illegible]		[illegible]	
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Price Support Level per cwt	[illegible] [illegible]	[illegible] [illegible]	[illegible] [illegible]	[illegible] [illegible]	[illegible] [illegible]	[illegible] [illegible]
Milk Marketed (cwt)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milk Income	[illegible] [illegible]	[illegible] [illegible]	[illegible] [illegible] [illegible] [illegible]	[illegible] [illegible]	[illegible] [illegible] [illegible] [illegible]	[illegible] [illegible]
Total Milk Income	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Avg. Price per cwt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Production Costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Return to family labor and management	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] [illegible]
[illegible]
[illegible]
[illegible]
[illegible]

GIP

THE TWO-TIER PRICE CONCEPT:

- PROVIDES AN EFFECTIVE ENERGY SUPPLY BALANCING MECHANISM
- QUANTIFIES [illegible] [illegible]
- REDUCES GOVERNMENT COSTS
- AVOIDS EXCESSIVE DISRUPTIONS IN ANY REGION
- IS ADMINISTRATIVELY SIMPLE AND DIRECT
- PLACES BURDEN OF INCREASED [illegible] COST ON THOSE INCREASING PRODUCTION
- IS A TEMPORARY PROGRAM NOT USED WHEN THE NEEDED SUPPLY-DEMAND BALANCE IS ACHIEVED

S T A T E M E N T O F

FARMERS UNION MILK MARKETING COOPERATIVE
[illegible] East Washington Avenue
Madison, Wisconsin 53704

Presented by

Stewart G. Huber
President

Mr. Chairman, my name is Stewart Huber. I am president of the Farmers Union Milk Marketing Cooperative. I appear here today on behalf of the over 7,000 farm families who are members of this cooperative and who operate farms in Wisconsin, Minnesota, Iowa, Illinois, Michigan, Nebraska, and South Dakota. I also operate, along with other members of my family, a family dairy farm here in Wisconsin.

Our members want your subcommittee to know we appreciate your taking time from your busy schedules to conduct this special hearing in Holmen. Clearly a crisis exists here in America's heartland. The crisis is real. It is pervasive and the ripple effect is affecting a much larger group than just some of our hard-pressed farmers. It has the potential of sabotaging the economy of the entire upper Middle West.

It seems to me the crisis has two faces. First, there is the immediate crisis faced by something over a third of our most promising farmers who now find themselves with debt-to-asset ratios of over 40%. These farmers are clearly hamstringed. They're hamstringed because they did exactly what their government told them to do in the 1970's: "Plant fencerow to fencerow, there are unlimited world markets out there," their government told them. They did what their farm advisors and their lenders told them, "Get big - or get out of the way." These farmers did what they were asked to do. They expanded and went deeply in debt, and now the bubble has burst. Export markets have evaporated. Commodity prices are down. The equity in farmland has plummeted, and good farmers are caught. Bankers find their loans classified. Farm suppliers find markets down and accounts receivables too high. The farm market for industrial goods has dried up.

That's the face of the immediate crisis. Congress was right when it passed emergency credit legislation for these hard-pressed farmers. Unfortunately, the administration saw fit to give farmers the back of its hand with a veto and saying that commenting adults should have known better and that farmers were just a greedy bunch.

The Reagan administration has unveiled its own plan for the '85 farm bill. The way out, the administration says, is to move to something called "a market-oriented agriculture," to lower our commodity prices to world market levels, a world market that the administration admits is neither free nor fair.

To lower prices even further is exactly the wrong medicine for this very sick patient, the highly leveraged farmer. Implementation would almost certainly lead to a rural economic collapse. There just has to be a better way - for this immediate crisis and the longer-term one as well. The longer-term crisis, I'd define as the proposed price erosion that could bring down even the best financed among us. If we look specifically at what is proposed under the Reagan plan for dairy, we see exactly how tough it could be.

The administration plan has already started with the termination of the Dairy Diversion Program effective April 1. Although only a 50 cent per hundredweight cut in the support price was authorized, the Department actually gave us a much larger price cut than that when it reduced the purchase price on barrel cheese by the equivalent of 72 1/2 cents per hundredweight and block cheese the equivalent of 60 cents. This much harsher price reduction caught farmers and industry people by surprise. We should hope the administration, since it overcompensated on the April 1 cut, will now forego the next scheduled 50 cent cut on July 1, a suggestion we respectfully request that your subcommittee submit to the Secretary.

Unfortunately, the Department seems hellbent on further price cuts. The administration plan calls for further racheting down of the price level on a regular basis throughout the life of the purchase program which the administration has scheduled to expire October 1, 1987. The proposed modified target price program which would replace the purchase program would, according to Dr. Bob Cropp, a UW-Platteville economist, have a target price of $7.25 per hundredweight effective in 1990. That price level would bring unmitigated disaster to us in the upper Middle West. There has to a better way than putting all dairy farmers through the price wringer to squeeze out the most poorly financed amoung us.

It is ironic that the first-ever farmer-financed supply management program was allowed to expire on April 1. Despite its flaws, this voluntary self-help program did what its most ardent critics said it couldn't do - it saved U.S. taxpayers over $1 billion dollars. It reduced excess production 3-4%. It increased competition for reduced supplies resulting in the best M-W pay price to producers this past fall. It began melting away the supply stocks that hung like a wet blanket over our market, and it was totally financed by farmers themselves. Douglas Caruso, our cooperative's general manager, presented an excellent statement on March 27 to your subcommittee which documents in graphic detail the benefits which have accrued from this 15-month program.

It just seems to us that the diversion program should have been extended until some kind of supply management program could have been put in place in the '85 farm bill. It's sad that we appear to be starting down that slippery slope of surpluses again ending up in government warehouses, with lower and lower prices to farmers.

It now makes it imperative to move with dispatch to get a voluntary supply management tool for farmers included in the '85 farm bill. There are several approaches. We find a paid diversion program or a target price - deficiency payment program preferrable to the so-called two-tier pricing proposal. Both of the former use the carrot approach under which a producer makes his or her own decision to participate, while the latter uses the stick approach as the primary tool for cutting production. In addition, two-tier pricing would regulate every producer which would increase administrative costs for government and plants significantly as compared to administrative costs for only program participants with either a paid diversion or target price approach. Two tier-pricing, in our opinion, would tend to freeze production patterns unnecessarily and would create new entry and exit problems for producers. We, therefore, suggest that either the paid diversion which has already worked so successfully in dairy or the target price-deficiency payment approach which has been used on other basic commodities would be preferable supply management tools for farmers and government for inclusion in the '85 farm bill. We believe either approach would allow targeting of benefits to commercial, family-sized enterprizes.

We believe further that economic and political realities may dictate that all U.S. farmers participate in funding any supply management program, but if farmers fund such programs, it is imperitive that subsidized casein imports be restricted because such imports are currently materially interfering with our domestic support program. It would be dead wrong to allow manufactured dairy products as a bargaining chip in the upcoming international trade talks as is being rumored. We must aggressively enter that world market even if it means playing by the rules of our foreign competitors.

Clearly, we are at a crossroads in all farm policy, and in dairy policy in particular. We can, probably for the very last time, decide what we will do with our market and who will farm our land. Provisions of the '85 farm bill are that important. We trust you will consider our recommendations in your deliberations and we thank you for the opportunity to present our views.

FARMERS UNION
Milk Marketing Cooperative

April 16, 1985

Honorable Tony Coelho
Chairman, Subcommittee on Livestock,
Dairy and Poultry
403 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

We appreciate your consideration of our views at the field hearing last Thursday in Holmen, Wisconsin and especially want to thank you for agreeing to investigate the April 1 dairy price support cut. In addition, we ask that the record include the following concerns in response to an issue raised at the hearing.

We strongly object to any suggestion that the National Dairy Board be used to advise your subcommittee or any other body of Congress on dairy policy matters. While we are not opposed to the concept of an industry advisory panel as such, it would be totally inappropriate to use the National Dairy Board in the proposed policy advisory role.

Our objection is based on the manner in which the national board was chosen, not on the qualifications of its members. The National Dairy Board was appointed by a highly partisan President and his Secretary of Agriculture rather than elected by dairy farmers. The appointment process gave primary consideration to the partisan political loyalties of the nominees, not their ability to represent all producers.

Huge blocs of producers, including those represented by Farmers Union Milk Marketing Cooperative, were disenfranchised by the appointment process. It would be a serious mistake to extend this disenfranchisement further by using the national board to advise Congress on dairy policy.

The ability of the National Dairy Board to represent the interests of all producers is further limited by the fact that many of its members hold leadership positions in the large operating cooperatives. As was evident at the hearing, some producers believe the big co-ops are more concerned with protecting their own institutional interests than the interests of their members. This conflict of interests seriously limits the National Dairy Board's ability to speak for dairy farmers.

The fact that the operating cooperatives will be able to use bloc voting in the upcoming national referendum to determine the future of the dairy promotion program will only make matters worse. This will allow the big co-ops to continue a program which they largely control through their representatives on the national board.

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Finally, we are concerned that the proposed policy advisory role would violate provisions of The Dairy and Tobacco Adjustment Act of 1983 which prohibit the National Dairy Board from engaging in lobbying or related political activities. In writing this prohibition into the law, Congress clearly recognized the dangers of using producer funds or the board which administers those funds to influence the course of future dairy policy.

Sincerely,

FARMERS UNION MILK MARKETING COOPERATIVE

Stewart G Huber

Stewart G. Huber
President

TESTIMONY TO HOUSE SUBCOMMITTEE ON DAIRY, POULTRY & LIVESTOCK

Mr. Chairman:

My name is David Lunde, I am a dairy farmer from Hayward, Minnesota. I am a member of Mid-America Dairymen, Inc. a dairy co-op with corporate offices in Springfield, Missouri. I am currently a director of this association and have been a director for this association for twelve years. I mention this only to aquaint you and your committee that I do have some experience in the workings of the dairy industry at both the farm (production level) and the marketing level.

Being a member of Mid-America Dairymen I am also a member of the National Milk Producers Federation which I am sure you as a committee are familiar with. Our Northern Division manager, Mr. James Reeves, will or has presented to you the N.M.P.F. position on what we think should be the nature of the Dairy Section of the 1985 Farm Bill. I, as a dairy farmer, do support the N.M.P.F. position on this matter and hope you as a committee do understand that position. I do have some reservations about the N.M.P.F. position, but I see it as a compromize in the industry, and therefore believe it is as good as we can come together with at this point. The fact that there has to be some form of compromize is very evident when you look at the many different types of dairy farming operations there are across the country, such as the typical California or Florida operations as compared to the typical Mid-West operation. I am a Mid-West dairy farmer and I as a director represent a good number of Mid-West dairy farmers. I believe that the administration's plan for the dairy section of the 1985 Farm Bill are disastrous for the Mid-West dairymen and maybe for dairymen all across the country.

Having said all of this, I would like to get a litthe personal at this time. I don't believe in coming before a congressional committee with a 'personal ax to grind' but under the circumstances, I believe it necessary to aquaint you with the situation that prevails down on the farm. I have a son in partnership with me who I brought into the operation in [illegible] when he returned from the service. If he wasn't with me I would not be here, I would be too darn busy to run off to meetings etc. We formed a partnership operation in 1976 and in 1978 he and the experts (Extension People, the Financial Institutions, USDA, and a host of people selling all the good things for the future of the agriculture sector of the late 20th. century, and preparing ourselves for the 21st. century) sold me and my good wife on the idea that this was the way agriculture was going to go. So what did we do? We spent a whole bunch of equity to double the size of our dairy operation, to make room for two families. This was a fine plan at that time, but we didn't have any control of the rules of the game. My wife and I both being on the conservative side (Card carrying Republicans) had a lot of reservations about a venture of this scope (especially my wife). Now I said I don't like to get into 'personal ax grinding' but I have found that in my dealings as a director of Mid-America Dairymen and talking with hundreds of dairymen, the situation isn't unique at all, in fact it's quite common.

Now this is where you gentlemen come into play in this mess we are in. I would have to say that 90% of the farm problem is legislated or by executive order, (Embargoes, intrest rates, imports, high dollar value in world markets) and a general consensus among policy makers for cheap food policy for the public, after all, there are a very minor number of [illegible] that produce 70% of the food in this country for the bulk of the population.

Therefore, I feel that the country has a moral, human, and financial obligation to see to it that this middle group of farmers who produce this 70% to 75% of the nation's food, stay in operation and for a change make a profit. I mentioned the fact that we went into a major expenditure in 1978 That all cash flowed at that time (8 3/4% intrest on long term money and 9 3/4% to 10% on short term money with $ 10.50 milk prices). Today at the going intrest rates it does not cash flow at $ 13.00 milk prices. One economist's statement I read recently said, "get ready for $ 10.00 milk prices by 1986 if Secretary Block and President Reagan get their way." He also said, "get ready for $25.00 milk prices by 1990 if you survive." I think this fellow hit the nail on the head. There are a few that will survive that kind of pressure.

Gentlemen, I could go on and on here, but I know I have used up my allotted time. I want to Thank You for the opportunity to testify before you and hopefully during the panel discussion, some more of these issues will be clarified. I would hope that in the writing of the 1985 Ag. Bill that all of agriculture will be addressed. We all know that cheap grain will cause over-production on the livestock side every time. I believe very strongly that the deficit has to be addressed also.

Respectfully,

David Lunde

APRIL 11, 1985

TESTIMONY TO SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY

MR. CHAIRMAN, I AM DELBERT MANDELKO, A DAIRY FARMER FROM PRESTON, MINNESOTA. I AM A BOARD MEMBER OF THE NATIONAL MILK PRODUCERS FEDERATION AND APPEAR TODAY TO PRESENT THE DAIRY PROGRAM WHICH HAS BEEN APPROVED BY THEIR EXECUTIVE COMMITTEE.

THE NATIONAL MILK PRODUCERS FEDERATION IS THE NATIONAL FARM COMMODITY ORGANIZATION REPRESENTING DAIRY COOPERATIVE MARKETING ASSOCIATIONS OWNED AND OPERATED BY DAIRY FARMERS THROUGHOUT THE NATION. MOST OF THE NATION'S MILK SUPPLY IS MARKETED THROUGH THE COOPERATIVE ASSOCIATIONS REPRESENTED BY THE FEDERATION.

THE FEDERATION DEVELOPS PROGRAMS AND POLICIES WHICH REPRESENT A NATIONAL DAIRY POLICY. THE ELEMENTS OF THIS DAIRY POLICY INCLUDE:

1. FOSTERING THE DEVELOPMENT AND GROWTH OF COOPERATIVE MARKETING BY FARMERS.
2. SEEKING A MINIMUM LEVEL OF PRICE ASSURANCE TO DAIRY FARMERS. IT IS THIS ELEMENT OF THE FEDERATION'S POLICY WHICH I PLAN TO DISCUSS MORE IN DETAIL WITH YOU TODAY.
3. SEEKING TO MAINTAIN ORDERLY MARKETING CONDITIONS THROUGH THE FEDERAL MILK MARKETING ORDER PROGRAM.
4. ASSURING EFFECTIVE OEPRATION OF OUR DOMESTIC DAIRY PROGRAMS AND POLICIES BY SUPPORTING LIMITATION ON DAIRY PRODUCT IMPORTS.
5. MAINTAINING THE INTEGRITY OF DAIRY PRODUCTS.

EACH OF THESE FIVE ITEMS IS OF SUFFICIENT IMPORTANCE TO REQUIRE A FULL STATEMENT OF SUPPORT FROM US AT SUCH TIMES AS THEY ARE BEING CONSIDERED. BECAUSE GENERAL FARM LEGISLATION IS BEING CONSIDERED THIS YEAR MY STATEMENT WILL BE DIRECTED ALMOST ENTIRELY TOWARD OUR PROPOSAL FOR A DAIRY SUPPORT PROGRAM WHICH BLENDS WITH OTHERS TO CREATE A GENERAL AGRICULTURAL POLICY.

THE BASIC OBJECTIVE OF THE DAIRY PRICE SUPPORT PROGRAM CONTINUES TO BE VALID. THE VERY NATURE OF THE COMMODITY, MILK, MAKES INSTABILITY IN ITS PRODUCTION AND MARKETING INHERENT. BECAUSE MILK IS A BULKY, PERISHABLE PRODUCT WHOSE PRODUCTION IS DEPENDENT UPON THE BIOLOGICAL PROCESSES OF A COW THE ABILITY OF PRICE TO PROPERLY COORDINATE PRODUCTION, ASSEMBLY, PROCESSING AND MARKETING WITH CONSUMPTION IS GREATLY IMPAIRED.

IT IS VITAL THAT A PURCHASE PROGRAM CONTINUE TO BE THE METHOD USED TO SUPPORT THE PRICE OF MILK. THIS SYSTEM HAS WORKED WELL AND HAS PROVIDED STABILITY IN THE MARKET PRICES OF MILK AND DAIRY PRODUCTS THAT COULD NOT BE ATTAINED BY ANY OTHER METHOD. IT HAS PREVENTED "FIRE SALE" PRICES AND MAINTAINED MARKETS FOR PRODUCERS DURING THE FLUSH PRODUCTION MONTHS. DURING MOST YEARS OF ITS OPERATION IT HAS PROVIDED ADEQUATE SUPPLIES TO MODERATE INCREASES IN MILK PRICES DURING THE SHORT SEASON. IT HAS ALSO PROVIDED VALUABLE DAIRY PRODUCTS FOR USE IN MANY NUTRITION AND NEEDY ASSISTANCE PROGRAMS. WE URGE ITS CONTINUATION.

WE DO HOWEVER RECOMMEND CHANGES IN THE METHOD OF DETERMINING THE PRICE AT WHICH MILK PRODUCTION WILL BE SUPPORTED. AT PRESENT PERMANENT LEGISLATION RELIES UPON PARITY AS THE STANDARD FOR THIS PURPOSE. WE BELIEVE THIS USE OF THE 1910-14 BASE PERIOD IS NOW ANTIQUATED AND HAS DEVELOPED SOME UNDESIRABLE ASPECTS FOR THIS PURPOSE. THE FEDERATION DOES HOWEVER SUPPORT THE CONTINUED USE OF AN INDEXING CONCEPT FOR ESTABLISHING THE SUPPORT LEVEL OF MILK.

IT IS THEREFORE ADVOCATING A NEW DAIRY PRICING INDEX. THIS INDEX RELATES THE COSTS THAT DAIRY FARMERS FACE TODAY WITH THOSE IN THE THREE-YEAR PERIOD 1986-78, A PERIOD IN WHICH THERE WAS A FAIRLY BALANCED SUPPLY AND DEMAND OF MILK PRODUCTION.

80 PERCENT OF THE DAIRY PRICING INDEX IS DETERMINED BY CASH EXPENSES OF DAIRY FARMERS. THE WEIGHTS GIVEN TO THE SPECIFIC ITEMS IS BASED ON A U.S.D.A. COST OF PRODUCTION STUDY. THERE ARE SIXTEEN SUCH INDIVIDUAL ITEMS IN THE FORMULA, WHICH INCLUDE FEED, FARM SERVICES AND CASH RENT, INTEREST, FARM WAGE RATES, FUELS AND ENERGY, AND TRACTOR AND SELF-PROPELLED MACHINERY. OF THESE THE MAJOR ITEM BY FAR IS FEED, WHICH ACCOUNTS FOR OVER 40 PERCENT OF THIS PART OF THE INDEX.

10 PERCENT OF THE DAIRY PRICING INDEX REPRESENTS PRICES RECEIVED FOR MEAT ANIMALS. IT IS INTENDED TO REPRESENT THE DAIRY FARMER'S ALTERNATIVE OF SELLING DAIRY ANIMALS FOR MEAT RATHER THAN KEEPING THEM FOR MILK.

THE FINAL 10 PERCENT OF THE DAIRY PRICING INDEX REPRESENTS THE CONSUMER PRICE INDEX (CPI). THIS TIES MILK PRICES TO WHAT IS HAPPENING IN THE GENERAL ECONOMY.

WHILE, AS MENTIONED THE INDEX IS BASED ON THE 1976-78 PRODUCTION YEARS IT IS THEN ADJUSTED TO SHOW CHANGES IN EACH OF THE INDIVIDUAL ITEMS FROM THE BASE PERIOD TO THE CURRENT YEAR AS WELL AS RECOGNIZING THE CHANGES IN INPUTS REQUIRED TO PRODUCE ONE HUNDRED POUNDS OF MILK. BY SO DOING IT HAS BEEN DEVELOPED WITH THE THOUGHT THAT IT IS FLEXIBLE ENOUGH TO FIT FUTURE CHANGES.

I WOULD ALSO LIKE TO MAKE REFERENCE TO THE ADDENDUM AS SET FORTH BY THE NATIONAL MILK PRODUCERS FEDERATION AS PRESENTED ON MARCH 27, 1985 WITH RESPECT TO THE DAIRY PRICE SUPPORT PROGRAM AND TO THE OFFICIAL STATEMENT AS PRESENTED ON MARCH 22, 1985 BY THE PRESIDENT OF THE NATIONAL MILK PRODUCERS FEDERATION TO THE SUBCOMMITTEE HEARING HELD IN WASHINGTON, D.C.

IT IS ALSO OUR POSITION THAT WE SUPPORT THE INITIAL PRICE SUPPORT LEVEL TO BE CONSISTENT WITH THAT OF THE ANNOUNCEMENT OF THE SECRETARY OF AGRICULTURE ON APRIL 1, 1985.

STATEMENT ON BEHALF OF NATIONAL FARMERS ORGANIZATION

FIELD HEARING BEFORE THE DAIRY AND POULTRY SUB-COMMITTEE OF THE HOUSE AGRICULTURE COMMITTEE

[illegible] HIGH SCHOOL, [illegible], WISCONSIN
THURSDAY, APRIL [illegible], 1985

My name is James [illegible] and I am Assistant Director of Procurement for the National Farmers Organization, Dairy Division. I appreciate the opportunity to submit testimony concerning the direction of the 1985 Farm Bill in particular, regarding the effect on dairy producers. Family-Farm Dairy Producers are experiencing the effects of a cost-price squeeze that, unless reversed, threatens to destroy the Family-Farm structure of the U.S. Dairy Production Industry. The administration's 1985 Farm Bill proposal appears to encourage that destruction by decreasing prices and eliminating all supply management programs.

The Administration's contention that Federal Farm Programs haven't worked and won't work, is a thinly veiled attempt to cover up its intentional mismanagement of Federal Farm Programs, in order to discredit the Programs, and therefore to build support for eliminating them altogether. A case in point is the 1983 PIK Grain and Cotton Program, which was represented as a genuine supply management effort, but was necessitated only because of the lack of relatively inexpensive supply management programs in 1982.

The Administration showed its true colors by its lack of effective Supply Management Programs for Grain and Cotton in 1984 and 1985, by continually using the cost of the 1983 PIK Program as an example of the excessive costs and ineffectiveness of Federal Programs.

It appears the Administration intentionally went overboard on the 1983 PIK Program in order to discredit the whole system of Federal Farm Programs.

The administration is [illegible] Dairy [illegible] Program, a program that has [illegible] many years and which was financed entirely by dairy farmers. The administration's [illegible]

Although, the National Farmers Organization believes that the answer is that the producer groups must be [illegible] the dairy production. National Farmers [illegible] Government has a responsibility to provide [illegible] industry, the producers and consumers at a reasonable cost to the Taxpayers.

The National Farmers Organization's recommendations in the [illegible] Farm Bill are based on the three basic needs stated earlier:

1. Fair and stable prices for the farmers.
2. Fair and stable prices for the consumers.
3. Reasonable costs to the Taxpayers.

In order to fulfill these three basic needs, three provisions of a Dairy Program are necessary:

1. Adequate price levels for producers.
2. Adequate Supply Management Programs.
3. Control of imports.

The National Farmers Organization proposes a new formula for the Dairy Price Support Program. The elements are as follows:

1. Each dairy farmer established a base with the USDA using the past [illegible] years as the base period.
2. [illegible]

3. Dairy Farmers would receive payment for milk based on a support price of $17.60/cwt on his proportionate share of the National Production needed for domestic use.
4. Dairy farmers would receive payment for milk at a price of $4.40/cwt on his proportionate share of the National Production not needed for domestic use.
5. Dairy Plants would pay the difference between $4.40/cwt and $17.60/cwt to CCC to be used to purchase dairy products for PL 480 and other food for peach programs.
6. The Secretary of Agriculture would have the discretion to adjust the percent needed for domestic use on a monthly basis to conform to actual usage.
7. Countervailing duties would be imposed on dairy imports to bring their value up to U.S. domestic price levels.
8. The Federal Milk Order Program would be maintained.
9. CCC Purchases should be limited to product made during flush months and holiday periods using the payment differentials on National Production not needed for domestic use and minor government expenditures as necessary.
10. A producer's base stays with the farm.
11. A program to allow new entrants into the Industry would have to be developed.
12. Hauling subsidies, other costs paid by the Plant and patronage dividends should be considered as payment in calculation of M-W Series Price.
13. Cost of Production adjustment to the $17.60/cwt support price on National production needed for domestic use should be calculated using the factors proposed by National Milk Producers Federation in the dairy pricing index.

By implementing this program, National Production can be matched to U.S. domestic use at little or no cost to the taxpayer. Dairy producers will receive fair and stable prices and the Dairy Industry will retain its Family Farm Structure which has served it well in the past.

TESTIMONY OF LELAND MULDER,

PRESIDENT OF THE WISCONSIN FARMERS UNION,

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE. U. S. AGRICULTURE SECRETARY JOHN R. BLOCK PAID WISCONSIN DAIRY FARMERS A VISIT ON MARCH 29TH AND FOLLOWED THAT UP BY DROPPING DAIRY PRICE SUPPORTS THREE DAYS LATER. WE HOPE AND TRUST THAT THIS COMMITTEE WILL LEAVE A MORE POSITIVE REMINDER OF ITS VISIT TO AMERICA'S DAIRYLAND.

WHEN WE HEARD THAT SECRETARY BLOCK WAS COMING TO WISCONSIN WE FELT THAT THERE WAS AN OUTSIDE CHANCE THAT HE MIGHT USE THE OCCASION TO ANNOUNCE THE EXTENSION OF THE MILK DIVERSION PROGRAM. WE WERE DELUDED. HE NOT ONLY CAME OUT FOURSQUARE AGAINST THE PAID DIVERSION PROGRAM, BUT ALSO AGAINST ANY LONG RANGE PRICE SUPPORT PROGRAM FOR DAIRYING.

IN THE PAST TWO MONTHS, WISCONSIN FARMERS UNION, THE FARMERS UNION MILK MARKETING COOPERATIVE AND THE NATIONAL FARMERS UNION HAVE ALL TAKEN OFFICIAL POSITIONS, RECOMMENDING A CONTINUATION OF THE DAIRY DIVERSION PROGRAM. EVEN BEFORE DELEGATES TO THE RESPECTIVE ANNUAL MEETINGS OF THESE ORGANIZATIONS CAME OUT FOR AN EXTENSION OF THE DAIRY PROGRAM, FARMERS UNION LEADERSHIP WAS POINTING TO THE SUCCESSES OF THE PROGRAM AND URGING ITS CONTINUATION.

I HAD THE PRIVILEGE OF CHAIRING THE NATIONAL FARMERS UNION POLICY DRAFTING COMMITTEE WHICH NOT ONLY CALLED FOR A SUPPLY MANAGEMENT PROGRAM FOR MILK BUT ALSO MADE THE FOLLOWING RECOMMENDATIONS, APPROVED BY DELEGATES TO THE NATIONAL CONVENTION IN PHOENIX LAST MONTH:

1) MAJOR REDUCTIONS IN CURRENT IMPORT LEVELS OF FOREIGN SUBSIDIZED CASEIN WHICH ARE COSTING AMERICAN TAXPAYERS $600 MILLION ANNUALLY; 2) ACCELERATION OF MARKET ORDER CONSOLIDATION FOR THE PURPOSE OF ACHIEVING MORE UNIFORMITY IN PRICES TO MILK PRODUCERS; 3) STATE AND FEDERAL LEGISLATION TO ADOPT COMPONENT PRICING OF MILK; 4) INCREASED FUNDING OF SCHOOL MILK PROGRAMS; AND 5) A PILOT PROGRAM OF CONSUMER DISCOUNT COUPONS FOR LOW AND MODERATE INCOME FAMILIES.

AFTER TELLING FARMERS IN GREEN BAY THAT THE REAGAN ADMINISTRATION WOULDN'T SUPPORT CONTINUATION OF THE DAIRY DIVERSION PROGRAM, SECRETARY BLOCK SAID DAIRYMEN IN WISCONSIN WERE SPLIT ON THE ISSUE. THEY MAY BE SPLIT, BUT THE SPLIT IS 2 TO 1 IN FAVOR THE PROGRAM. THE WISCONSIN DEPARTMENT OF AGRICULTURE, TRADE AND CONSUMER PROTECTION LAST AUTUMN SURVEYED 4,100 FARMERS OF WHICH 95% WERE DAIRYMEN. IN RESPONSE TO THE STATEMENT: "IF MILK PRODUCTION EXCEEDS DEMAND ON MARCH 31, 1985, THE MILK DIVERSION PROGRAM SHOULD BE CONTINUED," 62% OF THE FARMERS "AGREED" AND 30% "DISAGREED."

THE ADMINISTRATION, IN ITS MARKET-ORIENTED APPROACH, WOULD PHASE OUT DAIRY PRICE SUPPORTS BY 1988 AND THEN USHER IN A DEFICIENCY PAYMENT PROGRAM TARGETED TO ONLY A PORTION OF THE DAIRY PRODUCERS. THE SUPPORT PRICE WOULD BE GEARED TO ANTICIPATED GOVERNMENT PURCHASES SO WE'D BE LOOKING AT DAIRY SUPPORTS SOMEWHERE AROUND THE $10.00 PER HUNDREDWEIGHT LEVEL.

"IT'S TRUE WE'LL LOSE SOME DAIRYMEN," SECRETARY BLOCK SAID AT GREEN BAY, "BUT WE ARE LOSING DAIRYMEN ANYWAY." HE CONTINUED: "IF WE RAISE THE PRICE OR KEEP IT AT UNREALISTIC LEVELS THEN YOU ARE GOING TO HAVE GOVERNMENT CONTROLS. I DON'T BELIEVE THE ANSWER IS HAVING GOVERNMENT IN AGRICULTURE."

A majority of Wisconsin dairy farmers, according to the survey, are opposed to using the dairy price support level as Secretary Block is doing in an attempt to control production. They realize that dairy farm failures will multiply with lower milk prices and the remaining dairy farmers will increase milk production in the short run.

We agree with what Rep. Gunderson told members of the Farmers Union Milk Marketing Cooperative in February, and I quote: "The Administration wants to go to a free market in dairy, but the fact is that there is no free market in agriculture." To that statement we would add that as long as there is no free market in agriculture, it is an insult to the intelligence of the American Farmer to talk about not having the government in agriculture as Secretary Block did in Green Bay. We have not heard the term bargaining power used for a long time in discussions of farm policy, but the fact remains that as long as farmers are "price takers" and not "price setters" in a largeley administered economy, then they must look to government to furnish them with some power in the marketplace. We believe we are stating a fundamental economic principle here while Secretary Block has only expressed this Administration's political ideology in repeating the old, conservative shibboleths.

There is widespread agreement that another 50 cent cut in milk prices on July 1st will severely tighten the cost-price squeeze on dairy farmers. Agricultural economist Edward Jesse of the Univeristy of Wisconsin-Madison has said that as many as

25 PERCENT OF WISCONSIN'S 42,400 DAIRY FARMERS COULD BE FORCED OUT OF BUSINESS. A FARMERS HOME ADMINISTRATION SPOKESMAN HAS CALCULATED THAT WISCONSIN IS ONLY ABOUT A YEAR BEHIND MINNESOTA AND IOWA IN THE PACE OF FARM FORECLOSURES. IN THIS REGARD, WE HOPE THAT THE FMHA WILL DO A BETTER JOB IN WISCONSIN THAN IT HAS DONE IN OTHER STATES TO ASSIST FARMERS IN REMAINING ON THE LAND. IN PHOENIX, NATIONAL FARMERS UNION RENEWED ITS CALL FOR A TOTAL REORGANIZATION OF THE FMHA, SO THAT THE AGENCY, AS A "LENDER OF LAST RESORT," WILL BE LIMITED TO PROVIDING FINANCIAL AID TO FAMILY FARMERS AND WILL NO LONGER BE CONCERNED WITH PROGRAMS FOR RURAL DEVELOPMENT. THAT FUNCTION WOULD BE PLACED INTO A SEPARATE, NEW AGENCY.

REP. GUNDERSON ALSO TOLD A CONFERENCE OF CENEX CO-OP MANAGERS LAST FALL, AND I QUOTE, "AMERICAN AGRICULTURE FACES ITS GREATEST CHALLENGE EVER...AS CONGRESS WRITES THE 1985 FARM BILL." HE CONTINUED: "WE MUST MEET THIS CHALLENGE WITH A PROGRAM THAT IS CREATIVE, CONSISTENT AND FISCALLY CONSERVATIVE, OR THE HISTORIC COOPERATION BETWEEN FARMERS AND THEIR GOVERNMENT MAY BE DESTROYED." WE, TOO, BELIEVE THAT THE "HISTORIC COOPERATION BETWEEN FARMERS AND THEIR GOVERNMENT" MUST BE PRESERVED, BUT WE ALSO BELIEVE THAT THIS HISTORIC PARTNERSHIP CAN BE DESTROYED IN THENAME OF FISCAL CONSERVATISM. THE MOOD OF WISCONSIN FARMERS RIGHT NOW IS THAT WE WANT MORE FISCAL CONSERVATISM IN THE PENTAGON AND MORE FISCAL RESPONSIBILITY IN THE WHITE HOUSE AND THE CONGRESS. THE $1.5 BILLION PRICE TAG ON THE 21 MX MISSILES, RECENTLY APPROVED BY CONGRESS, WOULD HAVE COVERED THE COST OF THE DAIRY PRICE SUPPORT PROGRAM IN 1984 OR PAID FOR THE EMERGENCY FARM CREDIT BILL VETOED BY PRESIDENT REAGAN. THIS IS THE MESSAGE THAT THIS COMMITTEE MUST TAKE BACK TO WASHINGTON. THANK YOU.

MID-AMERICA DAIRYMEN
BEFORE THE
SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
OF THE HOUSE AGRICULTURE COMMITTEE

WITH RESPECT TO THE
DAIRY PRICE SUPPORT PROGRAM
FOR THE 1985 FARM BILL

APRIL 11, 1985
HOLMEN, WISCONSIN

ROBERT PEDERSEN
DAIRY FARMER FROM MINNESOTA
& CHAIRMAN, NORTHERN DIVISION
OF MID-AMERICA DAIRYMEN, INC.

DAVE LUNDE
DAIRY FARMER FROM MINNESOTA
& BOARD MEMBER,
MID-AMERICA DAIRYMEN, INC.

DONALD LOHMANN
DAIRY FARMER FROM MINNESOTA
& MEMBER OF MID-AM
DAIRYMEN ADEPT COMMITTEE

JIM REEVES
VICE PRESIDENT &
GENERAL MANAGER
NORTHERN DIVISION
MID-AMERICA DAIRYMEN

MID-AMERICA DAIRYMEN
DAIRY SUPPORT PROGRAM FOR THE 1985 FARM BILL

The Milk Diversion Program and the Advertising and Promotion Program authorized by the Dairy and Tobacco Adjustment Act of 1983 have gone a long way towards balancing the supply and demand situation for milk and dairy products. CCC purchases have been cut in half, the cost of the purchase program has been reduced by more than one billion dollars and the Milk Diversion Program has been financed and paid for by dairy farmers - it has been a successful self-help program.

However, the supply-demand imbalance is not totally solved. We still have more resources in the production of milk today than are needed to meet the demand for milk and dairy products. Our projections for supply and utilization for the current year indicate that net CCC purchases may still reach about eight billion pounds milk equivalent.

Mid-Am recognizes that further steps must be taken to bring supply and demand into closer balance. We hope to bring about this necessary reduction in the surplus without destroying the dairy industry in the process.

We believe that the National Milk Producers Federation's four program objectives to be used in the development of the program for the 1985 Farm Bill would bring a balanced supply and demand:

1. To assure an adequate supply of pure and wholesome milk for domestic consumption.
2. To stabilize prices but only to the degree that in the long-run market prices are allowed to adjust the resources in milk production to the demand for milk and dairy products.

3. To encourage market growth and the consumption of milk and dairy products.
4. To provide for standby authority for the use of an incentive/penalty program when substantial adjustments in supplies are necessary.

Mid-America Dairymen recommends that the 1985 Farm Bill provide authority for a dairy program with the following elements:

Purchase Program

It is vital that a purchase program continue to be the method used to support the price of milk. The Agricultural Act of 1949 authorized that the price of milk be supported through the purchases of milk and milk products. This system has worked well and has provided stability in the market prices of milk and dairy products that could not be attained by any other method. During most years of program operation, there have been adequate supplies available in CCC storage to moderate increases in milk prices during the short season. Thus, false signals of surplus or shortages have not been transmitted to the farmer through market prices and unneeded resources have not left nor been drawn into milk production because of seasonal price swings.

The purchase program has also been more reflective of supply and demand conditions and has sent market signals to the farmer more quickly than any other program could have done. A target price-deficiency payment program such as used in many of the row crop commodities would not work well for dairy products. A target price-deficiency payment does not give a true signal to producers. Such a program guarantees a minimum price to producers whether or not market conditions justify such a price. The Dairy Price Support Program as it has operated with a purchase program assures processers of manufactured products and adequate return with which they may pay dairy farmers the support price for milk. If a manufactured product's processer finds that he need not pay the support level to attain an adequate supply for his plant, he is not required by law to do so. This allows the supply-demand signal to be transmitted to dairy farmers almost immediately.

The purchase program has also provided valuable dairy products for the use of government in many of the nutrition and needy assistance programs. The School Lunch, Elderly Feeding and WIC programs have all benefited from dairy products acquired under the support program. Were these commodities not made available directly to these individuals, some other method of government assistance would have to be devised to provide the same nutrition and assistance.

We fully support the continuation of a purchase program which buys butter, non-fat dry milk and cheese at prices which allow manufacturing plants of average efficiency to pay at least the support price to dairy farmers.

Dairy Pricing Index

Permanent legislation must rely upon parity as the standard by which the support price of milk should be established. Mid-America

Dairymen supports continued use of this concept for establishing the support level of milk to assure an adequate supply. However, we believe that the current parity formula may have developed some undesirable aspects which will make it less useful as a price setter in the future. The 1910-14 base period is antiquated and many problems are created by continuing to relate back to a base period which bears little resemblance to the present. The method of calculating the adjusted base price tends to unduly increase the parity price for milk because milk prices have increased more rapidly than the index of prices received for all farm products. This fact, along with the increased productivity on dairy farms, appears to have shifted the applicable range at which parity could be applied from 75 to 90 percent to some lower range.

Another problem with the continued use of parity is that milk is one of the few commodities which still uses parity as a basis for establishing prices. Thus, the consistency which was provided when parity was used to establish all product prices has been lost.

Recognizing these problems, the Board of Directors of the National Milk Producers Federation, directed the development of new dairy pricing index which could be included in the 1985 Farm bill as a means of establishing a support price for milk. The Board of Directors felt that any formula should reflect the cost of producing milk, the economic conditions in the other segments of agriculture and the economic conditions in the general economy. Based on these guidelines, the Federation has developed a new dairy pricing index. Mid-America Dairymen supports this index which has previously been presented to the Dairy Subcommittee.

The new Dairy Pricing Index relates the costs that dairy farmers face today with those in the three-year period, 1976-1978, which was a fairly balanced period for milk supply and demand. The index gives a weight of 80 percent to the cash expenses of dairy farmers. The weights given to the specific cash expense factors were derived from the "Cost of Production Study" published by the U.S. Department of Agriculture. There are sixteen individual factors in the formula which represent cash outlays. These include feed, farm services and cash rent, interest, farm wage rates, fuels and energy and tractor and self-propelled machinery. The factor feed carries the weight of 33 percent in the formula, but in terms of cash expenses, the feed factor represents 41.25 percent. By contrast, feed represents less than ten percent of the index we now use, hardly reflective of the actual cost of feed to a dairy farmer.

The heavier weight of feed also represents an opportunity cost to dairy farmers who can sell their homegrown feed commercially rather than feeding it to their livestock.

In addition, a factor representing prices received for meat animals is included in the formula and weighted at 10 percent to represent the dairy farmer's alternative of selling dairy animals for meat rather than keeping them for milk.

The final ten percent in the formula is represented by the Consumer Price Index (CPI). Inclusion of this factor in the formula ties milk prices to what is happening in the general economy and reflects in the index the increases in cost that dairy farmers and their families face in their daily living.

The index generated by these 18 factors is then adjusted by a cost of production adjuster. An integral part of the formula, this adjuster reflects the changes in inputs needed to produce one hundred pounds of milk. The adjuster is tied to output per cow and reflects the changes in inputs needed to produce one hundred pounds of milk since the base period. The inclusion of this factor in the formula will keep the formula viable in reflecting accurately the changes in the cost of producing milk for many years to come.

Supply-Demand Adjuster

Recognizing that no formula devised can adequately reflect all of the conditions which impact on the supply and demand for dairy products and recognizing that the factors in the formula are based on historical data and therefore, may not truly reflect the conditions which will exist in the future, the Federation has constructed a supply-demand adjuster to fine-tune the support price generated by the formula.

The supply-demand adjuster is a schedule of price inreases and decreases which relate to expected net purchases by the Commodity Credit Corporation (CCC) of dairy products during the coming marketing year. The supply-demand adjuster is designed to result in CCC net purchases between three and five billion pounds, a level felt necessary to assure price stability and provide U.S.D.A. the commodities necessary to meet their program needs.

If the Secretary of Agriculture estimates that the support price generated by the dairy pricing index would call forth less than three billion pounds of milk, the supply-demand adjuster would require that the support price be increased to generate additional supplies. However, should the Secretary's estimate of CCC purchases be above five billion pounds milk equivalent, the supply-demand adjuster would require that the support price be decreased. In addition to the mandatory price increases and decreases provided at each level of surplus, there is discretion given to the Secretary to further increase the price signal being sent to dairy farmers. The supply-demand adjuster proposed is as follows:

Supply-Demand Adjuster

CCC Purchases (Billions of lbs.)	Mandatory Price Adjustment (percent)	Discretionary Price Adjustment (percent)
Less than 1	+ 7.8	unlimited
1 to 1.99	+ 5.2	up to + 7.8
2 to 2.99	+ 2.6	up to + 5.2
3 to 3.99	0	up to + 2.6
4 to 4.99	0	down to - 2.6
5 to 5.99	- 2.6	down to - 5.2
6 to 6.99	- 5.2	down to - 7.8
7 and over	- 7.8	0

The above supply-demand adjuster at current milk price levels would provide for a maximum downward price adjustment of approximately $1 dollar per hundredweight.

Incentive/Penalty Program

The final provision of our program would be some type of incentive/penalty program that would be available for use when significant adjustment in supply is necessary.

We fully expect that the operation of the dairy pricing index and the supply-demand adjuster will keep relative balance in supply and demand most of the time. The adjustments provided in these prices are large enough and occur soon enough to send an early and definite signal to dairy farmers when they are producing too little or too much milk.

We are, however, in a period of rapidly advancing technology - in a period where rapid changes in exogenous factors can bring great volatility to the dairy industry. We are hearing more and more about scientific advancements such as bovine growth hormones or embryo transplants, which if they become common management practice among dairy farmers, could substantially increase our ability to produce milk in a very short period of time. Such advancements likely would occur more quickly than could be adequately reflected in the formula in time to bring about an orderly reduction of the resources in milk production.

Total reliance on price to make a massive adjustment in resources is not satisfactory. Such a method requires that the entire industry suffer under the burden of excessively low prices until our productive capacity is reduced down to demand levels. We believe that standby authority for some type of incentive/penalty program to bring about adjustments, such as the current milk diversion program has, would keep the industry healthier and therefore, the program would continue to meet its objective of assuring an adequate supply.

There are several forms that such an incentive/penalty program could take. The program might be voluntary or mandatory on every producer. It could provide payments to producers who reduce production or could involve penalties on producers who overproduce. It should be funded by a general assessment on all milk marketed. Perhaps government responsiblity could be limited at some level, either in terms of dollars spent or billions of pounds purchased. There could be exemptions for farmers who raise and sell registered breeding stock and some provision could be made to protect the producers of other commodities.

Specifically, Mid-America supports the National Milk Producers incentive program which contains the following principles:

-- if governemnt purchases are estimated below five billion pounds ME, there will be no assessments and no diversion program,

-- if purchases are estimated between five and seven billion pounds ME, the Secretary shall have the discretion of implementing a diversion program coupled with assessment, and

-- if government purchases are estimated greater than seven billion pounds, ME, the Secretary shall institute an assessment and a diversion program.

-- The base period shall be the 12-month period ending June 30, immediately prior to the announcement of program implementation.

-- For those deciding to participate, contracts shall be signed for reductions of between five and 30 percent of their base.

-- $10.00 per hundredweight payment shall be made for reductions.

-- If the participation level is such that a deficit would be projected, the Secretary shall have the discretion to adjust all contracts equally.

-- Bases of participants in the 1984-1985 Milk Diversion Program will be adjusted.

-- The Secretary shall have the discretion to adjust all contracts after assessing the possible impacts of this program on other commodities.

-- There shall be no limitation on individual payments under this program.

Other Programs

Mid-America Dairymen also strongly supports the continuation of the following programs:

-- The Federal Milk Marketing Order Program as authorized by the Agricultural Marketing Agreement Act of 1937 with permanent extension of authority for base/excess and Louisville plans; we also support authority under the act for market-wide service payments.

-- Continuation of the Dairy Indemnity.

-- Continuation of the authority contained in section 202 of the Agricultural Act of 1947 for transfer of dairy products to military and veterans' hospitals.

-- An expansion of nutrition assistance programs in those categories that do not impact adversely commercial sales.

-- A continuation of import controls on foreign dairy products and the expansion of quotas to include casein and whey protein products.

Testimony of Myron Alberts
before the
House Subcommittee on Livestock, Dairy and Poultry
Holmen, Wisconsin, April 11, 1985

My name is Myron Alberts. My brother and I operate a large dairy farm near Pine Island, Minnesota. I am a member of Land O'Lakes, and serve on the Board of Directors of that organization.

Since early last fall, the Land O'Lakes board and membership have been discussing policy ideas for the dairy provisions of the 1985 Farm Bill. At our annual meeting at the end of February we adopted a resolution that presents our ideas on the program features that should be adopted. A copy of that resolution is attached to my testimony.

Here are the specific dairy program proposals embodied in the current Land O'Lakes position on the 1985 Farm Bill:

1) Continue the federal dairy price support program. By that I mean we should support milk prices by removing surplus butter, cheese and nonfat dry milk from the market through purchases by the Commodity Credit Corporation. This mechanism was implemented in the Agricultural Act of 1949, and has worked well except when political or administrative discretion was used to set the support price too high or too low relative to market clearing levels, or when the attractiveness of alternative farm enterprises was not taken into account. Very simply, the support price and purchase program works well as an instrument for stability, but works poorly as a mechanism to insulate dairy farmers from the realities of the market. It is

effective in reducing both seasonal and cyclical instability, helping producers make long run production decisions, and giving consumers a reasonable measure of value for milk and dairy products.

2) Establish the support price on the basis of an economic index that specifically recognizes factors that influence dairy production. Primary among these would be production cost items. Also important would be the value of alternative farm enterprises. The National Milk Producers Federation has developed such an index for your consideration. We feel it provides a sensitive mechanism for automatically adjusting support prices as economic conditions change.

3) Provide an adjustment to the support price to reflect changes in supply and demand. No economic index will do a perfect job of reflecting all of the economic forces at work in the dairy economy. Therefore, surpluses and shortages could develop in spite of a well constructed index price. A supply/demand adjustor should be applied to the index price whenever milk production fails substantially short of, or rises above commercial needs.

4) Include provisions to assure adequate and equitable incomes for dairy farmers. It is difficult to define a fair income level for dairy farmers. We believe that an efficient dairy farmer should have the opportunity to earn an income that is equivalent to that available from other farm enterprises or from off-farm work. His economic welfare should be balanced with that of the rest of the agricultural and national economy.

5) Apply the dairy price support program uniformly across geographic regions. The manufactured dairy product market is national is scope. A pound of milk produced in Florida has the same impact on the national dairy economy as a pound of milk produced in Minnesota. It is undesirable to require one region, such as the Upper Midwest, to absorb a bigger share of needed adjustments than other regions. All dairy products are important to consumers. The rationale that milk production geared to local fluid markets has superior rights to milk produced for national manufactured dairy product markets is simply faulty thinking. No artificial incentives or restraints should be created to protect the milk supply for any one product or any one area. Normal market forces will do a good job of allocating milk to products and regions on the basis of economic efficiency.

6) Avoid the adoption of marketing quotas or production bases. Quotas or bases create rigid production patterns. They retard technological development and they add to the cost of producing milk. They also create significant barriers to entry for efficient new producers and create a priviledged position for existing dairy farmers. The benefits of a quota or base program accrue only to the first generation of farmers under such a program. Those benefits are capitalized away by the second and each succeeding generation of dairy farmers. We recognize that there may be extreme circumstances that arise that could justify a quota or base program; however, we do not believe such a situation exists at this time.

7) Maintain programs that are designed to increase the per capita consumption of dairy products. The primary thrust must be to increase commercial sales of dairy products. The National Dairy Research and Promotion Program is the best tool we have to achieve this objective. For the first time in the history of the U.S. dairy industry, all dairymen are contributing to the promotion effort. We feel that dairy farmers need a broad-based, major advertising effort in order to maintain market share against competing beverage products, such as soft drinks and beer. We have greater value to offer the consumer and we feel that we must keep this message before the public. Other programs, such as food stamps, foreign donations, and domestic donations that do not disrupt commercial sales should be maintained.

7) In the absence of a new long range program by October 1, 1985, continue the present program. This is a watershed year for agricultural legislation, and it is doubtful if all the conflicts can be resolved by September 30 of this year. No one is proposing a reversion to the permanent legislation in the Agricultural Act of 1949 since it would create major price distortions and disrupt markets. A prudent course of action would be to continue indefinitely the dairy provisions of the Dairy and Tobacco Adjustments Act of 1983. The support price for milk will likely be $11.60 after July 1, and this is generally accepted as the starting point for new legislation. Also the smooth functioning of the purchase program would not be disrupted.

We feel that the $11.60 support price is sufficiently low to discourage increased milk production, and to encourage increased consumption. Left alone, the $11.60 support price should be enough to work the dairy industry out of its oversupply situation in a few years, with low government costs. As time goes on, it is likely that no additional disincentives or supply management programs will be needed.

Thank you for this opportunity to present the views of Land O'Lakes with regard to the dairy provisions of the 1985 Farm Bill.

(Attachment follows:)

Land O'Lakes Resolution adopted at the 1985 Annual Meeting, February 26-28, 1985.

Dairy Legislation

We favor continuation of a federal dairy price support program. The program should support milk prices by removing surplus butter, cheese, and nonfat dry milk from the market through purchases by the Commodity Credit Corp. Support prices should be set using an index that specifically recognizes factors in dairy production and includes an adjuster for changes in supply and demand. It also should include provisions to assure adequate and equitable incomes for dairy farmers.

We oppose any regional differences in applying the dairy price support program.

We also oppose program proposals that involve quotas on milk marketing and production bases except as may be needed to adjust an extreme supply imbalance.

We continue to favor programs that increase the per capita consumption of dairy products through commercial channels.

PC/cms
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APRIL 11, 1985

TESTIMONY TO SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY

MR. CHAIRMAN, I AM HERBERT SELBREDE, A DAIRY FARMER FROM SPARTA, WISCONSIN. I AM VICE-PRESIDENT OF THE NATIONAL MILK PRODUCERS FEDERATION AND APPEAR TODAY TO PRESENT THE DAIRY PROGRAM WHICH HAS BEEN APPROVED BY THEIR EXECUTIVE COMMITTEE.

THE NATIONAL MILK PRODUCERS FEDERATION IS THE NATIONAL FARM COMMODITY ORGANIZATION REPRESENTING DAIRY COOPERATIVE MARKETING ASSOCIATIONS OWNED AND OPERATED BY DAIRY FARMERS THROUGHOUT THE NATION. MOST OF THE NATION'S MILK SUPPLY IS MARKETED THROUGH THE COOPERATIVE ASSOCIATIONS REPRESENTED BY THE FEDERATION.

THE FEDERATION DEVELOPS PROGRAMS AND POLICIES WHICH REPRESENT A NATIONAL DAIRY POLICY. THE ELEMENTS OF THIS DAIRY POLICY INCLUDE:

1. FOSTERING THE DEVELOPMENT AND GROWTH OF COOPERATIVE MARKETING BY FARMERS.
2. SEEKING A MINIMUM LEVEL OF PRICE ASSURANCE TO DAIRY FARMERS. IT IS THIS ELEMENT OF THE FEDERATION'S POLICY WHICH I PLAN TO DISCUSS MORE IN DETAIL WITH YOU TODAY.
3. SEEKING TO MAINTAIN ORDERLY MARKETING CONDITIONS THROUGH THE FEDERAL MILK MARKETING ORDER PROGRAM.
4. ASSURING EFFECTIVE OEPRATION OF OUR DOMESTIC DAIRY PROGRAMS AND POLICIES BY SUPPORTING LIMITATION ON DAIRY PRODUCT IMPORTS.
5. MAINTAINING THE INTEGRITY OF DAIRY PRODUCTS.

EACH OF THESE FIVE ITEMS IS OF SUFFICIENT IMPORTANCE TO REQUIRE A FULL STATEMENT OF SUPPORT FROM US AT SUCH TIMES AS THEY ARE BEING CONSIDERED. BECAUSE GENERAL FARM LEGISLATION IS BEING CONSIDERED THIS YEAR MY STATEMENT WILL BE DIRECTED ALMOST ENTIRELY TOWARD OUR PROPOSAL FOR A DAIRY SUPPORT PROGRAM WHICH BLENDS WITH OTHERS TO CREATE A GENERAL AGRICULTURAL POLICY.

THE BASIC OBJECTIVE OF THE DAIRY PRICE SUPPORT PROGRAM CONTINUES TO BE VALID. THE VERY NATURE OF THE COMMODITY, MILK, MAKES INSTABILITY IN ITS PRODUCTION AND MARKETING INHERENT. BECAUSE MILK IS A BULKY, PERISHABLE PRODUCT WHOSE PRODUCTION IS DEPENDENT UPON THE BIOLOGICAL PROCESSES OF A COW THE ABILITY OF PRICE TO PROPERLY COORDINATE PRODUCTION, ASSEMBLY, PROCESSING AND MARKETING WITH CONSUMPTION IS GREATLY IMPAIRED.

IT IS VITAL THAT A PURCHASE PROGRAM CONTINUE TO BE THE METHOD USED TO SUPPORT THE PRICE OF MILK. THIS SYSTEM HAS WORKED WELL AND HAS PROVIDED STABILITY IN THE MARKET PRICES OF MILK AND DAIRY PRODUCTS THAT COULD NOT BE ATTAINED BY ANY OTHER METHOD. IT HAS PREVENTED "FIRE SALE" PRICES AND MAINTAINED MARKETS FOR PRODUCERS DURING THE FLUSH PRODUCTION MONTHS. DURING MOST YEARS OF ITS OPERATION IT HAS PROVIDED ADEQUATE SUPPLIES TO MODERATE INCREASES IN MILK PRICES DURING THE SHORT SEASON. IT HAS ALSO PROVIDED VALUABLE DAIRY PRODUCTS FOR USE IN MANY NUTRITION AND NEEDY ASSISTANCE PROGRAMS. WE URGE ITS CONTINUATION.

WE DO HOWEVER RECOMMEND CHANGES IN THE METHOD OF DETERMINING THE PRICE AT WHICH MILK PRODUCTION WILL BE SUPPORTED. AT PRESENT PERMANENT LEGISLATION RELIES UPON PARITY AS THE STANDARD FOR THIS PURPOSE. WE BELIEVE THIS USE OF THE 1910-14 BASE PERIOD IS NOW ANTIQUATED AND HAS DEVELOPED SOME UNDESIRABLE ASPECTS FOR THIS PURPOSE. THE FEDERATION DOES HOWEVER SUPPORT THE CONTINUED USE OF AN INDEXING CONCEPT FOR ESTABLISHING THE SUPPORT LEVEL OF MILK.

IT IS THEREFORE ADVOCATING A NEW DAIRY PRICING INDEX. THIS INDEX RELATES THE COSTS THAT DAIRY FARMERS FACE TODAY WITH THOSE IN THE THREE-YEAR PERIOD 1976-78, A PERIOD IN WHICH THERE WAS A FAIRLY BALANCED SUPPLY AND DEMAND OF MILK PRODUCTION.

80 PERCENT OF THE DAIRY PRICING INDEX IS DETERMINED BY CASH EXPENSES OF DAIRY FARMERS. THE WEIGHTS GIVEN TO THE SPECIFIC ITEMS IS BASED ON A U.S.D.A. COST OF PRODUCTION STUDY. THERE ARE SIXTEEN SUCH INDIVIDUAL ITEMS IN THE FORMULA, WHICH INCLUDE FEED, FARM SERVICES AND CASH RENT, INTEREST, FARM WAGE RATES, FUELS AND ENERGY, AND TRACTOR AND SELF-PROPELLED MACHINERY. OF THESE THE MAJOR ITEM BY FAR IS FEED, WHICH ACCOUNTS FOR OVER 40 PERCENT OF THIS PART OF THE INDEX.

10 PERCENT OF THE DAIRY PRICING INDEX REPRESENTS PRICES RECEIVED FOR MEAT ANIMALS. IT IS INTENDED TO REPRESENT THE DAIRY FARMER'S ALTERNATIVE OF SELLING DAIRY ANIMALS FOR MEAT RATHER THAN KEEPING THEM FOR MILK.

THE FINAL 10 PERCENT OF THE DAIRY PRICING INDEX REPRESENTS THE CONSUMER PRICE INDEX (CPI). THIS TIES MILK PRICES TO WHAT IS HAPPENING IN THE GENERAL ECONOMY.

WHILE, AS MENTIONED THE INDEX IS BASED ON THE 1976-78 PRODUCTION YEARS IT IS THEN ADJUSTED TO SHOW CHANGES IN EACH OF THE INDIVIDUAL ITEMS FROM THE BASE PERIOD TO THE CURRENT YEAR AS WELL AS RECOGNIZING THE CHANGES IN INPUTS REQUIRED TO PRODUCE ONE HUNDRED POUNDS OF MILK. BY SO DOING IT HAS BEEN DEVELOPED WITH THE THOUGHT THAT IT IS FLEXIBLE ENOUGH TO FIT FUTURE CHANGES.

I WOULD ALSO LIKE TO MAKE REFERENCE TO THE ADDENDUM AS SET FORTH BY THE NATIONAL MILK PRODUCERS FEDERATION AS PRESENTED ON MARCH 27, 1985 WITH RESPECT TO THE DAIRY PRICE SUPPORT PROGRAM AND TO THE OFFICIAL STATEMENT AS PRESENTED ON MARCH 22, 1985 BY THE PRESIDENT OF THE NATIONAL MILK PRODUCERS FEDERATION TO THE SUBCOMMITTEE HEARING HELD IN WASHINGTON, D.C.

IT IS ALSO OUR POSITION THAT WE SUPPORT THE INITIAL PRICE SUPPORT LEVEL TO BE CONSISTENT WITH THAT OF THE ANNOUNCEMENT OF THE SECRETARY OF AGRICULTURE ON APRIL 1, 1985.

STATEMENT OF
JIM REEVES
MID-AMERICA DAIRYMEN, INC.
NORTHERN DIVISION

My name is Jim Reeves. I am vice president and general manager of the Northern Division of Mid-America Dairymen.

The Northern Division is the largest - both in terms of dairymen and in processing operations - in Mid-America Dairymen. In this Division, we produce 140 million pounds of Cheddar cheese and 18 million pounds of mozzarella cheese annually. We also operate two major drying facilities that produce dried cheese-based snack food coatings and other dried dairy foods for use in the manufacture of various food products.

We also operate a butter churning and printing operation and supply substantial volumes of fluid whole milk, skim milk and cream to the Class I market in Minneapolis and St. Paul.

We also produce sweetened condensed milk for candy manufacturers in the Upper Midwest.

We have facilities and dairy farmer members in Wisconsin, Minnesota and North and South Dakota.

The dairy farmers who deliver milk to these facilities are the owners of the facilities. Other dairymen, who are members of Mid-America Dairymen and in positions of leadership, have testified as to the principles they would like to see incorporated in the dairy section of a farm bill in 1985.

Since I am one of the dairymen's hired hands, my discussion here today will relate to some of the technical aspects of a price support program that re-enforces Mid-Am's position on some of the basic elements needed in the '85 farm bill. Particularly, I would like to discuss the need for continuing the current CCC purchase program for dairy products, instead of establishing a target price and a deficiency payment program.

I would like to point out that much of the CCC purchases of cheese to support prices occur in the Upper Midwest. Minnesota, alone, accounted for 44 percent of all CCC cheese purchases for the marketing year just past. If you add the purchases made in the states of Wisconsin and North and South Dakota, you account for almost 85 percent of all cheese purchases made during the last marketing year to support milk prices.

In short, when there is substantial over-production of milk, the surplus tends to back up into the Upper Midwest - much of it in the form of Cheddar cheese.

The deficiency payment program would lower prices to market clearing levels, and then make deficiency payments directly to farmers to equate the difference between this market-clearing level and a target price established by the law.

The problem is that the effect of the market-clearing price will affect the Upper Midwest dairy farmer to a greater degree than the dairy farmers of other regions of the United States. Basically, the market-clearing, or lower price, will pertain - for the most part - to manufactured products, such as butter, cheese and non-fat and to a much lesser degree, to Class I fluid milk products or even Class II products, such as ice cream, cottage cheese and yogurt.

Generally, the Upper Midwest dairyman is precluded from fluid markets in other areas because the prices are not high enough in those areas to pay the cost of the milk and transporting the milk to the market. There may be exceptions to this for short periods of time on a very limited seasonal basis. Conversely, the current price support technique that purchases surplus cheese, butter and non-fat, establishes a price floor in the location of the surplus, which is then extended to other markets through the mechanism of the M-W price series in Federal Orders, so all dairy prices are supported and all dairy farmers are affected equally by the level of such a price.

Make no mistake, a target price and a deficiency payment program for dairymen will place an undue burden on the dairy farmers of the Upper Midwest.

I would also like to pointout that the loss of the CCC purchase program eliminates the legal reason for the quota system which is now absolutely necessary to protect dairy farmers from floods of foreign subsidized dairy products. The Administration proposes the quota system be bargained away in futute GATT meetings, and that would be fairly simple if we had no price support program. It would be very difficult and could not be accomplished administratively through GATT negotiations if we maintained such a price support program.

For these reasons, we do urge the continued use of a price support system in the 1985 Farm Bill.

These are the two points I wanted to emphasize. Our other positions with respect to other elements of the dairy section of the '85 Farm Bill are included in the statement that we are filing with you. If you have any questions with regard to any of our positions, we will be very happy to try to answer them.

All of us at Mid-Am want you to know we appreciate the efforts of Congressmen Penny, Gunderson, Coelho and Jeffords. We have always found you good friends of the dairy farmers and the dairy industry. We appreciate your efforts and activities. If there is any way we can help, we certainly stand ready to do so.

JR:rs

The House Sub-Committee on Livestock, Dairying And Poultry
Hearing: Holman, Wisconsin April 11,1985

My name is Robert J. Williams, Executive Director of the Trade Association of Proprietary Plants, 716 12th Street, Baraboo,Wi. 53913. I represent 33 privately owned dairy plants (predominantly cheese)located in Wisconsin and Illinois. Approximately 6,000 producers market milk through these plants.

Time does not allow me to go into detail on the dairy program which I am submitting for the record at this hearing for your future reference. I will summarize the attached program and point out why it constitutes the best approach to the dairy surplus problem. I might add that this program was developed by a coalition committee of interested dairy leaders. T.A.P.P. has adopted it as the program they support. Other organizations represented in the coalition have not as yet adopted the program as their official position for various reasons.

The program briefly involves the following elements with supporting reasons:

1. A separate dairy bill to become effective July 1,1985. It is important that we prevent a build-up of production and surpluses between expiration of the Dairy Diversion program and Oct.1, 1985 when a new program will be implemented. Such build-up would not be in the best interests of producers, dairy plants and would needlessly result in increased price support costs.
2. The price support level would be $12.10 with a 50¢ assessment and a $11.60 net price to farmers. The $11.60 net price to farmers is the same level as under the current program. The $12.10 price support level to consumers is 50¢ more than under the present program.

   Consumers experienced a substantial drop in prices April 1, under the present program. Previous to April 1. dairy products were a good buy and after April 1 are yet a better buy for consumers. Maintaining a $12.10 price support level to consumers coupled with a 50¢ assessment to producers gives producers the proper signal to cut production. At the same time the 50¢ assedsment (difference between the $12.10 price support level and the $11.60 price to farmers(can be used to reduce supply and price support costs.

2. The three interested parties involved in our present dairy surplus problem include producers with serious income problems, Government with high purchase costs and consumers already getting a good buy on dairy products. Maintaining price supports coupled with the 50¢ farmer assessment is a method whereby production and Government costs can be cut immediately and at the same time provide dairy farmers an alternative or income safety net while production comes into balance with demand.

   The $11.60 net price to farmers coupled with increasing costs of production and living will bring supply into balance within 2-3 years at which time assessments and diversion payments will no longer be needed. In the meantime the $12.10 price support level for consumers will provide a long term stable price not only for consumers but for the dairy industry in general. A drop of 50¢ in the price support to consumers would have little effect on increasing consumption and in the absence of diversion payments (and incentive to reduce production) and the assessment, Government purchase costs may well soar to $1.5-2 billion under the Administration's suggested program.

3. The program provides for a voluntary production cutting incentive of a $10.00/cwt. diversion payment. The diversion payment financed by the 50¢/cwt. assessment (indirectly financed by the higher $12.10 price support level) provides:

   a. An alternative or safety net on dairy farm income. When the Government supports milk at $12.10 through purchases, the variable costs of milk production (feed, Vet. etc.) are about $8-10/cwt. So the marginal income accruing to the farmer to cover fixed costs, living expense and profit is only $2.10-4.10/cwt. The $10.00 diversion payment is a $10.00/cwt marginal income contribution which increases farm income by $5.90-7.90/cwt. more than Government purchasing the product.

   b. To support milk at $12.10 through purchases an additional $4.40 per cwt. is spent for processing, grading, transportation, storage and interest, none of which contributes to farmer income. This is a very inefficient way to support farm income and represents an unnecessary burden on taxpayers.

   So paying producers to cut production (especially if financed by assessment) is the most efficient way to support farm income and reduce Government costs.

3.

4. The dairy diversion program is voluntary thus avoids the pitfalls of quotas or mandatory base plans. Bases do not assume values which are capitalized into the costs of production as were experienced under the tobacco program. It regulates only a relatively few people who choose to be regulated or who desperately need a solution to their farm income problem.
5. The program includes adjustment of price support rate by triggers based on anticipated Government purchases of 3-5 billion pounds annually. This, coupled with assessments and diversion payments (when needed) will cap Government costs between $500 million-$900 million per year. This cap on Government costs shifts the responsibility of surplus production to producers where it should be.

   The Government and taxpayer responsibility is limited. Politics is eliminated from the process of setting price support levels. Volume of Government purchases which triggers support levels, reflects all the changes in supply and demand including technological break-throughs in production.

   Parity formulas of any kind are meaningless and subject to obsolescence. They give producers a false sense of security and can give wrong price signals. Basing price support rates on volume of Government purchases gives the dairy industry a truly market oriented approach to pricing.
6. Participation would be limited to 5-30% of production and $50,000 per farm plus amount of assessments paid in. This farm limitation should spread participation more equally regionally and limit public criticism of the program.

Participation under this modified dairy diversion program would be much higher than under the present diversion program. Participation was 12% under the past program and would be 15-25% under the suggested program. Restrictions on cattle sales would be dropped, the sign-up period would be longer and the income advantages of the program are better known to farmers.

The two main impediments to implementation by July 1,1985 are regionalism and considering dairy separately from other commodities. An attached analysis deals with these two subjects in detail.

The suggested program would cut Government costs to $300-$400 million (see attached analysis) which should be an all important consideration for Congress which is struggling with the budget deficit problem. It would represent approximately a $1 billion savings per year compared to the Administration's suggested program over the next 3 years. It also is a program which is more effective and provides a safety net for dairy farm income on a voluntary basis.

The Trade Association vehemently opposes:
- Two-tier pricing systems
- Mandatory base or quota plans
- Regiohalism in the production and marketing of milk and dairy products.
- Elimination of the price support program
- Any program which discriminates between Grade "A" and "B" milk.

We do not agree with the Administration's position and thinking in regards to:
- Elimination of the price support program
- That the dairy diversion program will lead to mandatory base or quota plans
- That one type of program fits all commodities
- Lower prices will make dairy products competitive in the world market thus increase exports
- That the price support system is obsolete.
- That a straight drop in supports is the answer to lowering Government costs.
- That the dairy diversion program stifles production and marketing efficiency or involves too much Government.
- That dairy farming is like any other business

We do agree with the Administration in regard to:
- Making the price support program market oriented. We disagree on how to get there.
- A long term program is needed which gives producers the right price signal.
- That Government costs and responsibility must be limited.
- That the program must be flexible enough to withstand the test of time.

In summary, TAPP supports the suggested dairy diversion program because it is the best answer to the producer income problem and the Government surplus cost problem.

(Attachments follow:)

THE REGIONALISM PROBLEM

Analysis by Robert J. Williams - TAPP

The present diversion program resulted in a relatively large cut in production in Southeastern states. In part it was due to a lack of limit on per farm payments. Many large farms in those areas participated to the full extent of reducing production (30%). Another reason for the disproportionate production cuts in those areas is their relatively high variable costs associated with milk production. The $10.00 national diversion payment was most attractive to producers [illegible] areas which have the highest variable costs relative to the pri[illegible] of milk.

One unifor[illegible]iversion rate is a fair incentive to reduce production to all producers nationwide.

One has to keep in mind that the other purpose of the $10.00 diversion plan is to provide a safety net for producers net income. This has probably kept some producers in dairy farming especially in the high cost milk production areas, more so than with a straight cut in milk production or a program limiting diversion patments on a market, state or regional base where there is a relatively high Class I or fluid percent utilization.

Without a doubt, high handling charge and transportation costs were associated with importing more milk during a few low production months, but this was remedied by a 20¢ increase in Class I prices in those markets to offset added import costs. One should remember that with reduced production those coops. or markets will have less cost of surplus disposal in the flush months. Producers in those areas also benefited from higher utilizations and blend prices because of lower production.

Producers were faced with a 10% national surplus. The Southeastern U.S. cut production about 10%, other regions much less, which means we still face a surplus problem. If there had been an equal 10% cut in all regions of the U.S. the Southeastern states would still have to import milk during a few months of the year. The attached dairy diversion program suggested for the 1985 Farm Bill attempts to equalize regional cuts in production by limiting payments per farm to $50,000 plus assessments paid.

If Southeastern high Class I utilization markets believe that the surplus problem will be solved by a straight cut in price supports or increased Class I prices they will be disappointed.

2.

The dairy industry is a national market where handlers and producers are allowed to compete on an equitable basis. Economics, not discriminatory price support and arbitrary Federal Milk Marketing Order pricing should prevail and determine which producers or handlers survive and which ones don't.

Regional self-sufficiency cannot be the objective of any dairy program. For example, it doesn't make sense to increase Class I differentials to encourage self-sufficiency in deficit areas when we face a national surplus.

Raising some Class I diffenentials will encourage changes in the Federal Order program to enable deficit markets to receive supplemental fluid milk in the form of re-constituted Grade "A" powder and/or condensed milk. These would be viable alternatives to Southern markets buying Northern supplemental fluid milk.

Therefore, a straight price support cut without any prospects of increasing Class I prices in deficit markets may result in still lower milk production in the deficit areas.

Thus serious consideration should be given to the suggested dairy-diversion program which provides a safety net for producers and areas with high variable costs of milk production.

It should also be remembered that if production is dropped to eliminate surpluses one can expect higher free market milk prices 6-8 months of the year, substantially higher than the $11.60 suggested price support level. Producers benefited in this way under the present diversion program.

To prevent disproportional production cuts in any region, one might consider capping regional participation to the percentage of national surplus. This would be easy to do by giving the Secretary authority to scale back the total producer contracts in a given region in event that region's total cut back sign-up exceeded the national surplus percentage figure. This provision coupled with the farm payment limitation should solve the problem of regionalism under the attached 1985 Farm Bill diversion payment.

So it is of utmost importance that milk producers nationally stop blaming each other for the surplus and stop trying to devise programs which uneconomically cut production in one area vs. another. We are a national industry competing in a national market. Producers from all regions must stand together to have any hope of getting favorable consideration in the 1985 Farm Bill.

3.

SHOULD CONGRESS CONSIDER DAIRY SEPARATELY IN THE 1985 FARM BILL

Congress should consider dairy separately in the 1985 Farm Bill for the following reasons:

1. A program such as the suggested dairy diversion program, if put into effect by July 1,1985, would save the Government approximately $865 million to $1.037 billion the first year. Production and CCC costs will undoubtedly increase after March 30th. Congress should take advantage of every opportunity to reduce the Federal deficit whenever the opportunity presents itself which in this case is July 1.
2. The net price to farmers will be $11.60 which is in line with reduced prices for other commodities and is in line with scheduled pricing under present legislation and Reagan's program.
3. Other farm commodity groups should not object to dairy being considered separately because:
   - a. Dairy price reduction is in line with price reductions to farmers with other commodities.
   - b. The savings in dairy can be helpful to other commodities to stay within the total objective price support cost restraints imposed on Agriculture by the Administration.
   - c. In the final analysis the dairy program will differ from other commodities in that a CCC purchase program is imperative. Neither farmers nor private industry would assume the cost and risk of a storage program. Seasonality of production compared to demand requires a storage program. Individual farmers can assume this function with grain. Not so with dairy which requires further processing and special storage due to perishability.

     The assessment and diversion payment program is therefore temporary and intended to bring dairy supply into line with demand within 2-3 years. They are transition tools to a market oriented dairy program where price support levels will be triggered by volume and cost of Government purchases.

     A target price-deficiency payment type of program may have merit for grain but would not fit dairy due to procurement, processing, storage and product characteristics. There is no opportunity for dairy to be competitive in world markets where subsidized below cost of production prices predominate.

4. The suggested diversion program will not adversely impact on grain or livestock prices. The sooner dairy gets into balance the better for all commodities.

   If cattle numbers are allowed to build after July, eventually meat prices will be more adversely affected than trying to keep dairy cattle numbers down now.

In summary, it is in the best interests of all commodities that a dairy program go into effect by July 1,1985

Robert J Williams

Robert J. Williams
Executive Director T.A.P.P.

UWEX COOPERATIVE EXTENSION PROGRAM
UNIVERSITY OF WISCONSIN-EXTENSION

DEPARTMENT OF AGRICULTURAL INDUSTRIES
UNIVERSITY OF WISCONSIN–PLATTEVILLE
PLATTEVILLE, WISCONSIN 53818
PHONE (608) 342-1373

February 15, 1985

TO: Bob Williams
Truman Graf
Charlie Farr
Bill Knox
Lee Mulder
Steward Huber
Doug Caruso
Gene Meyers
Don Haldeman

FROM: Robert Cropp

RE: Cost estimates on Dairy Price Support Proposals

At the February 7, 1985 meeting of the Wisconsin dairy policy group it was the consensus to support a continuation of a paid diversion program. Recognizing that a continuation on April 1, 1985 appears unlikely, it was decided that a July 1, 1985 implementation should be pursued at a support price of $12.10.

The group asked that I provide some cost estimates of such a paid diversion program and compare this with the Administration's proposal. Enclosed are my cost comparisons.

I welcome your comments as to my assumptions and calculations. It is difficult to estimate exactly what milk production will do under various proposals. Price elasticity coefficients of supply indicate milk production should decline in 1985-86 if the support price is reduced. However, I believe that the number of replacement heifers, the more than 10.8 million milk cows yet on hand, and a likely increase in milk production per cow of at least 2% will result in an increase in milk production 1985-86. In addition, some farm credit relief both at the state and national level appears likely.

You will note on the last page of my comparison that net government costs look very favorable under the paid diversion program compared to the Administration's proposal. In addition, the milk surplus could be eliminated by October 1, 1986 under the diversion program. Also note that my cost estimates for the Administration's proposal are very close to their own estimates that appear in 1985 Food and Agriculture Act I passed out to you at the February 7th meeting.

Some members of Congress feel strongly that in order to get a paid diversion program passed some regional considerations need to be incorporated, that is, provision for less milk reductions in the Southeast. Regionalism may even be more necessary now with the new chairman of the House Agriculture Dairy Sub-Committee.

If you have not gotten and read a copy of USDA, ERS new publication, "Possible Economic Consequences of Reverting to Permanent Legislation or Eliminating Price and Income Supports," Agr. Econ. Report No. 526, do so. Where dairy and the rest of agriculture would be by 1990 under these two alternatives is quite interesting.

UNIVERSITY OF WISCONSIN • U.S. DEPARTMENT OF AGRICULTURE • WISCONSIN COUNTIES COOPERATING

Cooperating and Providing Equal Opportunities in Employment and Programming

Continuation of Paid Diversion Program:

A. Basic provisions:

1. Implementation July 1, 1985
2. Support price of $12.10
3. 50 cent assessment to pay for diversion program
4. $10 diversion payments for reducing marketings 10 to 30 percent below base
5. Base period options:
    - 1981-82 average
    - 1982-83 average
    - 1983
6. Payment limitation of $50,000 per individual plus amount of assessments paid.

B. Estimated Government Costs 1985-86 marketing year

1981-82 base milk = 132.05 billion pounds

1982-83 base milk = 135.5 billion pounds

1983 base milk = 137.6 billion pounds

Average of above bases = 135.05 billion pounds
(Note: Assume 1/3 of producers participating in Diversion choose each of the above base periods. Thus, use average of 135.05 for calculations)

Estimated production without Diversion Program = 138 billion pounds
Estimated farm use = 3 billion pounds
Farm marketings = 135 billion pounds

Estimated 25 percent of producers would participate at the rate of 20 percent.

At a 20 percent reduction the payment limitation of $50,000 would cover a herd size up to 200 milk cows or 97.5 percent of U.S. dairy herds that produce 81 percent of the milk supply. Herds larger than 200 cows could be paid $50,000 plus assessments paid.

Estimated reduced marketings by participants:

25 percent participation x 135.05 billion pounds base milk = 33.76 billion pounds

20 percent reductions x 33.76 = 6.752 billion pounds of reduced marketings

Estimated 1985-86 milk marketings with Diversion Program:

Milk marketings before program = 135 billion pounds
Reduced marketings by participants = 6.75 billion pounds
Milk marketings 1985-86 = 128.25 billion pounds

Estimated CCC purchases 1985-86:

Milk marketings	= 128.25 billion pounds
Beg. stocks	5.20
Imports	2.70
Total Supply	136.15
Commercial Sales	129.50
End Stocks	5.20
Total Use	134.70
CCC purchases	1.45 billion pounds

Estimated Government Costs 1985-86:

50 cent assessments = 128.25 billion pounds of milk marketings
x 50 cents/cwt.
$641.25 million

$10/cwt. paid diversions = 6.75 billion pounds of reduced marketings
x $10/cwt.
$675 million

$16.50/cwt. x 1.45 billion pounds = $239.25 million of CCC purchases

Net Cost to Government: = $675 million
+$239
-$641
$273 million

Net Government Costs If Only 15 Percent Participation:

15% participation x 135.05 bP base milk = 20.26bP
20% reductions x 20.26 bP = 4.05bP of reduced marketings
Milk marketings before program = 135 bP
Reduced marketings = 4.05bP
Milk marketings 1985-86 = 130.95bP

CCC Purchases:

- Milk marketings	= 130.95 bP
- Beg. stocks	= 5.20
- Imports	= 2.70
Total Supply	= 138.85 bP
- Commercial Sales	= 129.5 bP
- End Stocks	5.20 bP
Total Use	= 134.7 bP
- CCC Purchases	= 4.15 bP

Government Costs 1985-86:

50 cent assessments = 130.95 B#
x .50/cwt.
$654.75 million

$10/cwt. paid diversions= 4.05 B#
x$10/cwt.
$405 million

CCC purchase costs = 4.15 B#
$16.50/cwt.
$684.75 million

Net Government costs =$405.00 million
+$684.75 million
-$654.75 million
$435.00 million

Summary:

1. Net government costs could easily range to no more than $270 to $450 million dollars for the 1985-86 marketing year.

2. The milk surplus situation would be reduced to below 5 billion pounds of milk equivalent by October 1, 1986. This is not to say however, that increased production or surpluses would not return once the paid diversion program expired.

Administration's Proposal:

A. Basic Provisions

1. 50 cents/cwt. cut in support price April 1, 1985,
$12.60 to $12.10

2. 50 cents/cwt. cut in support price July 1, 1985,
$12.10 to $11.60

3. October 1, 1985 - March 31, 1986 a support price of $11.60

4. April 1, 1986 - March 31, 1987 a support price of $11.10

B. Estimated Government Costs 1985-86 marketing year

Milk Production	= 138 B#
Farm Use	= 3 B#
Farm Marketings	= 135 B#
Beg. Stocks	= 5.2 B#
Imports	= 2.7 B#
Total Supply	= 142.9 B#
Commercial Sales	= 130.0 B#
End Stocks	= 5.2 B#
Total Use	= 135.2 B#
CCC Purchases	7.7 B#
Net Government Costs	= $1.25 B

C. Summary

1. Milk production estimates are somewhat difficult to predict for 1985-86. What affect will financial stress have on milk production. Price elasticity of supply of -.15 to -.2 would indicate milk production should decline and not increase as I have indicated. However, with the supply of replacement heifers along with increased milk production per cow I believe milk production will increase for 1985-86. What Congress does with credit relief is another factor. It appears additional credit relief will be forthcoming.

2. I could be a little optimistic on commercial sales.

3. My net figures of 7.7 B# of CCC purchases and $1.25 B of CCC net costs are close to the Administration's estimates. (They estimate net government costs of $1.37 B for 1985-86).

Summary Comparison 1985-86

	Paid Diversion Proposal	Administration's Proposal
Farm Milk Marketings	128.25 B# - 130.95 B#	135.0 B#
CCC Purchases	1.45 B# - 4.15 B#	7.7 B#
Net Government Costs	$273 M - $435 M	$1.25 B

Mr. Chairman,

I appreciate the opportunity to testify today on behalf of the Rural Life Committee of the Catholic Diocese of La Crosse, a committee made up of rural Christian oriented people, to look at the problems facing the family farmer throughout rural Wisconsin, the nation and the world.

We have raised money during the past couple of years to purchase and ship some of the surplus powder milk abroad to the needy of South America. This solves two problems at once. It reduces the surplus in storage and it has a tendency to stabilize prices at a level the family farmer can stay in business.

There are numerous problems farmers have in making ends meet. The prime concern at the present time is the projection for the 1985 farm bill. The Reagan five year projection calls for prices in milk, corn, beans, and wheat to reach an all time low, which is equal to the world market prices charged by other countries. This, they say, would allow our trade to flow to other countries more easily and in theory, reduce our surplus; thus start increasing our prices. That is well and good but by this time the family farmer and the corporate farmer would both be out of business because the prices would be about 50% of the income needed to stay in business.

Milk would be $7.12 per 100 wt. with cost of producing it being $13.05.

Corn would be $1.86 per bushel with the cost of production about $3.03.

Soybeans at $4.03 and the cost of production at $5.02.

Wheat priced at $2.05 with cost of production at $4.38.

It would be a disaster for the farmer and consumer alike.

During the last 15 months, we have seen the dairy division program in place with farmers voluntarily participating in the cut back of cows and production. This has brought the total buying of stocks of butter, cheese and powder milk, by the Commodity Credit Corporation to about 50% of that of the buying of 1983. The total of milk equivalent purchased was 8.4 billion pounds of milk down from 1983 of 16.8 billion pounds. In early stages it would appear that if farmers would have had more time to understand the program and analyze it, more production would have gone into the programs.

As of April 1 of this year, we have only half of a program. The government has seen fit to throw out the cut back provision, which is the necessary part of any program and also has seen fit to keep the assessment in place which amounts to a tax on the farmers production for the right to milk cows. With very little incentive to control production it would appear that if the voluntary dairy supply management program would have been extended more production would have gone in if provisions would have been developed to allow new farmers to enter the program in addition to the farmers already in it.

Now we are seeing the support price dropping. The pay price for farmers in a local cheese factory is now $11.90 for 3.5% milk. Since that price was set the cheese price has dropped 4.75 cents. That is the equivalent of about 50¢ drop in that price or currently $11.40. With another 50¢ cut coming in July, we will be below $11.00 per hundred.

With farmers seeing the gross income level dropping, farmers in the areas are looking at purchasing more cows to make up the difference.

One farmer was adding 16 heifers, another one 10. This is not the thing to do but when the farmer has his back up against the wall he is going to do what he has to in order to keep his investment solvent. The price decrease is not the only problem, land prices are falling, the export market is deteriorating drastically and the import of foreign products is a tremendous problem to the farming community, whether it is casein, cheese, butter oil, or pork from Canada. As farmers quit buying it, it is going to affect every business on main street whether it is in the dairy state, grain producing state or from California farmers who were made because of the importing of the tremendous amount of tomato juice which is in competition with truck farmers.

We need to try to move toward the easing of restrictions on the movement of commodities throughout the United States. We could help this along with the elimination of some milk orders through the country.

A number of points should be considered when developing the 1985 Farm Program:

1. Programs should be voluntary.

2. Programs should be financed by the farmer who produces and the government in partnership.

3. Negotiations with foreign countries should be top priority. We need to import and export on the same basis as other countries but not at the expense of the American farmer.

- Catholic Diocesan Rural Life Committee

Don Bina
RR#1 Coon Valley Wis 54623
608-788-4659

For the Record

We are dairy farmers in rural Independence, Wisconsin. My husband came to this country in 1955 with an immigration visa. With him he had the sum total of $100 25. He became a United States citizen in 1961. In 1959 he bought the farm where we live now. He worked on farms as a hired man from 1955 until we were married in 1964. Then he worked at Whitehall Packing for about 6 years plus we farmed. We purchased another farm in 1969. We've paid for everything we've purchased and if a loan was necessary, (from a bank) it was repaid quickly. We've particapated very little in farm programs and not at all in the last years. We don't believe in welfare for anyone able to work - including farmers and that is what most of your programs are. There's too much government regulation in farming! This fine (checkoff) for milking is just plain stupid and whoever thought up that bill and everyone who signed it and especially the big wig that signed it and offically made it a law - should all be committed- as you guys have no idea what we're going through. True, many farmers that are going broke - it's their fault - borrowing too much, not paying as they went and planting alot of crops, which in no way is cheap. Seed, fertilizer, parts, everything continues to skyrocket and our prices for our milk drops. Now you've made funds- at least so I've heard- through state and federal funds- for hurting farmers at a low interest to that I say foul. We had to make it and have to continue to make it and having everything paid for - it still isn't easier and every year Reagan continues as president it gets worse. I shudder to think how many of us will be out of farming and those of us who aren't in debt now will probably be. We farmers don't vacation every year, have the latest in everything, so it's not frivolous spending either. Another thing is why do farmers have to pay to advertise their milk? Why not the company who makes the cheese or sells the bottled milk. This year has been the worst financially in all our 20 years of farming. Besides farm(property), state, income, and sales they slap a tax or fine on us for milking cows and deduct more money for us to advertise our products. We are not a big farmer, just a family business and trying to make it on our own- no welfare, etc. I ask you is this fair? I say NO! Was it made easy for us to vote against this advertising? NO! If we wanted to vote no we had to send to Madison for a ballot. My husband asked a lawyer about this and was told that although it wasn't fair, it didn't pay to fight it and end up with slashed tires or beat up. It's about time people stopped trying to get easy money off the farmers or soon we'll end up with no farmers. You guys are just as bad as those T.V. preachers- God will Bless you if you send us money. Well, we're giving you guys more and more and all we're getting is less on our milk check. We don't want hand outs just what is ours. From what I understand, this milk market has to be voted on again- I hope it's made more demorratic and I hope farmers have enough guts to stand up and say **ENOUGH, NO MORE!** People from all across the U.S.A. that we've met always moan about not being able to get good Wisconsin cheese. How about doing something so our cheese can get into each state without a hassel.

Also this is more for the State but school tax should be taken off the property tax and what Gov. Earl is doing now-if looked into won't do it. Also to help the Nat'l debt If advertising weren't tax deductable and churchs had to pay, you'd get alot of money and not have to take money off our milk check. How can a person in government in good conscience give themselves a raise while we have such a deficit?

If you think we can get along without farmers - which it seems you're trying to prove- look again. Drive down main street of our towns and cities and see all the vacant buildings or going out of business signs and tell me it's not as a result of the farm economy.

My husband who only went to the 8th grade and not even full years, has more sense than you guys have. He has common sense- which few people in government possess. When Pres. Reagan said we should export the farmers and keep the grain, I think he showed his true colors. But maybe we should say Let's keep the farmers and export Reagan, but then who"d want him????????????

If you don't understand this or want to ask questions feel free to contact us.

Respectfully summitted,

Alois and Cheryl Bragger
R.R. 1, Box 166
Independence, Wisconsin 54747

Cheryl M. Bragger

Registered Holsteins
DON COOPER
Farm Specialist

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4-11-85

TESTIMONY FOR THE HOUSE AG COMMITTEE HEARING AT HOLMEN, WIS.........

I'M DON COOPER - ALONG WITH MY FAMILY WE FARM 289 ACRES IN WESTERN SHEBOYGAN COUNTY.

OVER THE LAST 20 YEARS WE HAVE MAINTAINED A HERD OF BETWEEN 48 AND 55 REGISTERED HOLSTEIN MILK COWS ALONG WITH THE RELATED REPLACEMENTS. SELLING OF BREEDING STOCK HAS MADE A MAJOR CONTRIBUTION TO OUR FARM INCOME.

DUE TO THE SERIOUS CASH FLOW PROBLEMS WE HAVE EXPERIENCED FOR THE LAST 4 OR 5 YEARS WE ARE INCREASING OUR DAIRY MILKING HERD TO 70 TO 75 COWS IN AN EFFORT TO MEET OUR INCOME NEEDS.

ALONG WITH OUR FARM OPERATION I HAVE A FARM REAL ESTATE,AUCTION AND APPRAISAL BUSINESS WHICH I RUN FROM MY FARM OFFICE. I HAVE ALSO WORKED WITH THE WISCONSIN DEPARTMENT OF AGRICULTURE TRADE AND CONSUMER PROTECTION FARM ADVISORY GROUP IN AN EFFORT TO HELP OTHER FARMERS WHO ARE UNDER EXTREME FINANCIAL PRESSURE BECAUSE OF LOW FARM PRICES.

THERE IS LITTLE QUESTION THAT THE U.S. DAIRY INDUSTRY ALONG WITH THE REST OF U.S. AGRICULTURE IS IN A FINANCIAL CRISIS OF MAJOR PROPORTION.

A VERY FALSE SENSE OF SECURITY SEEMS TO PREVAIL IN WISCONSIN BECAUSE IT APPEARS THAT THE PROBLEM IS NOT AS SEVERE IN THIS STATE AS IT IS IN MANY OF OUR NEIGHBORING STATES. WISCONSIN SEEMS TO HAVE FARED SOMEWHAT BETTER BECAUSE OF OUR RELIANCE ON DAIRY FARMING AS OUR MAJOR SOURCE OF FARM INCOME.

THIS SENSE OF SECURITY IS DOOMED TO END AS WE GET FURTHER INTO 1985 WITH MILK INCOME SERIOUSLY ERODING SINCE AUTUMN OF 1984 AND FURTHER EROSION IS PROMISED BY THE U.S.D.A. .

DAIRY FARMING CLOSELY PARRALLELS THE REST OF U.S. AGRICULTURE IN POSESSING THE SAME MAJOR PROBLEM OF A CAPACITY TO PRODUCE FAR MORE THAN IS NEEDED BY OUR PRESENT MARKETS - WE HAVE BEEN TOLD TIME AND AGAIN FOR MANY YEARS THAT OUR PRODUCTIVE ABILITY WILL BE NEEDED - SOME DAY. WE HAVE WAITED PATIENTLY AND ARE NEAR THE END OF THE ROPE. WE HAVE COME TO THE TIME WHEN WE MUST DEAL WITH OVER PRODUCTION DRAMATICALLY TO AVOID UNNECESSARY DISASTER.

I OFFER MY TESTIMONY TODAY IN FULL SUPPORT OF THE FARM POLICY REFORM ACT OF 1985,A COPY OF WHICH IS INCLUDED WITH THIS TESTIMONY.

THE FARM POLICY REFORM ACT OF 1985 ADDRESSES ALL OF THE FOLLOWING ISSUES WHICH ARE VITAL TO A HEALTHY AMERICAN AGRICULTURE AND IN TURN A HEALTHY AMERICAN ECONOMY.

1. THE ELIMINATION OF SUBSIDY PAYMENTS.
2. BALANCING OF PRODUCTION WITH MARKET NEEDS.
3. TARGETS BENEFITS TO FAMILY FARMERS.
4. PROMOTES SOUND CONSERVATION PRACTISES.
5. ELIMINATES CURRENT DISASTER PAYMENTS AND LOAN PROGRAMS.
6. INCREASES HUMANITARY FOOD AID.
7. INCREASES PROMOTION OF EXPORT MARKETS.
8. CONTAINS STRONG SUPPORT FOR DOMESTIC FOOD ASSISTANCE.
9. PROVIDES FOR FARM CREDIT AND DEBT RESTRUCTURING.

WE HAVE BEEN TOLD BY OUR CONGRESSIONAL REPRESENTATIVES TIME AND-AGAIN THAT FARMERS MUST AGREE ON SPECIFIC LEGISLATION IN ORDER FOR IT TO BE APPROVED BY CONGRESS.

HOWEVER, I THINK IT IS FULLY AS UN-REASONABLE TO EXPECT ALL FARMERS TO AGREE AS IT WOULD BE TO EXPECT ALL CONGRESSMEN TO AGREE. AMONG FARMERS THERE IS WIDE DISAGREEMENT BASED ON PERSONAL FINANCES, POLITICAL AFFILIATION AND ECONOMIC THEORIES WHICH CAN NOT REASONABLY BE EXPECTED TO BE SET ASIDE.

THE FEDERAL GOVERNMENT I BELIEVE HAS A RESPONSIBILITY TO DO FOR ITS CITIZENS THE THINGS THEY CAN NOT DO FOR THEMSELVES. U.S. AGRICULTURE MUST NOT BE ALLOWED TO SINK OR SWIM IN A MARKET THAT WITHOUT FEDERAL POLICE PROTECTION WOULD BE DOMINATED BY LARGE POWERFUL ENTITIES INCLUDING FOREIGN

GOVERNMENT TREASURIES, WHICH WOULD EXERT EXTREME PRESSURE TO MAINTAIN ARTIFICIALLY LOW PRODUCER PRICES.

THE FARM POLICY REFORM ACT OF 1985 IF ADOPTED AS WRITTEN WOULD PROVIDE U.S. FARMERS WITH A FAIR INCOME, WOULD ASSURE U.S. CONSUMERS ADEQUATE FOOD SUPPLIES AT FAIR PRICES TO THEM- AND ADDITIONALLY WOULD PROVIDE A SIGNIFICANT STIMULUS TO OUR NATIONAL ECONOMY AS FARMERS WOULD HAVE THE FINANCIAL ABILITY TO REPLACE THE WORN OUT EQUIPMENT THEY HAVE BEEN UNABLE TO REPLACE FOR THE LAST SEVERAL YEARS, AND ONCE AGAIN BE ABLE TO SERVICE THEIR DEBT AND PAY THEIR OPERATING BILLS.

I WISH TO THANK THIS COMMITTEE FOR COMING TO WISCONSIN AND GIVING US THE OPPORTUNITY TO TESTIFY.

DONALD F. COOPER

(Attachment follows:)

The Farm Policy Reform Act of 1985

Fiscally Conservative, Long Term, Targeted at Family Farms

In a series of farm forums held throughout the country in 1984 and in hundreds of private meetings held during the past two years, farm groups and individuals expressed broad support for a new commonsense program to help efficient farmers bring their surplus production back into some reasonable balance with demand so they can get a fair price in the marketplace, rather than constantly overproducing and having to take survival payments from taxpayers.

In response, a cross section of family farmers, consumers, agriculture lenders, environmentalists, taxpayers and elected officials have developed the "Farm Policy Reform Act of 1985."

The major features of the proposal are:

1. Fair Prices in the Marketplace. Producers would receive a fair price for their crops in the marketplace, not from the government. Costly subsidy payments would be eliminated, and the price floor (the price-support loan rate) for each commodity would be set at a level approximating the full cost of production for that product.

As of last November, for instance, the program formula would have set the price floors for eight major storable commodities at these levels:

Corn	$ 3.71/bu.
Wheat	$ 6.21/bu.
Grain Sorghum	$ 6.28/cwt.
Soybeans	$ 9.10/bu.

In each subsequent year of the program, the price floors would be gradually raised until, in the eleventh year of the program, they reach the level at which farmers' returns on equity and labor are on a par with the rest of our economy.

2. Balancing production with need. Mandatory production controls (subject to a producer referendum) would limit U.S. production of storable commodities to actual demand, including domestic consumption, export demand, humanitarian need and strategic reserve requirements.

3. Targeted benefits to family farmers. Each producer would have a single acreage base comprised of any acres on which any of the designated commodities were grown in any of the last four years. Each producer would be required to set aside 15% of this acreage base, but in times of surplus, giant operators would be required to set aside a progressively higher percentage of their base (to discourage [illegible] and tax-loss ventures).

4. Promotion of sound conservation practices. Locally-approved conservation practices would be required on all erodible land. In addition, farmers would participate in a National Conservation Reserve, allowing for the voluntary, long-term retirement of fragile land. The Act would also contain prohibitions against "sodbusting" and provisions to encourage better protection of scarce groundwater supplies.

5. Crop Disaster Reserve. The current myriad of programs would be consolidated into one simplified approach that offers income protection to producers and protects both consumers and livestock producers from shortage-induced price increases. Each producer would annually contribute a portion (probably 3-4%) of production as an "insurance premium" into a National Farmers' Disaster Reserve (FDR). In the event of a disaster, a producer would receive commodities from the FDR to compensate for up to 90% of the loss.

DAIRY PROGRAM

A [illegible] Dairy committee is working on developing a program based on the following principles:

1) One National Milk Marketing Order
This will replace the current hodgepodge of programs.

2) [illegible]
   - a) A [illegible] referendum will be held to endorse the program.
   - b) Each farmer will receive a base set at their highest production in the last four years.
   - c) If production must be reduced to balance supply and demand, the reductions will be progressively "tiered" to assure that the very largest producers are required to make the most significant reductions.
   - d) Production bases stay with the farmer and cannot be rented, leased, or sold. County ASCS committees will allocate unused or extra base according to priorities that will allow for transferring base to new owners or within families, to existing farmers who need to expand production, and to beginning farmers.
   - e) Non-farm corporations or investors may not receive new base.

3) Prices Raised to 70% of Parity
Dairy prices will be set at the same level as feed grain prices. They will increase at the 2% annual rate until we reach a proper economic balance between agriculture and the rest of the economy.

6. Increased funding for humanitarian food aid. The USDA would be directed to enter into multilateral agreements with other food-exporting nations to fulfill food aid requirements to needy countries. These multilateral agreements should also mandate that additional emphasis be placed on helping needy nations develop food self-sufficiency to the degree possible, with each exporting nation allocating an amount of cash or other resources consistent with their level of food aid.

7. Increased promotion of export markets. Market development would include increases in export credits, negotiation of more multi-year export contracts, and a "monetary adjustment program" allowing foreign buyers to receive, when available, surplus commodities from government stocks to offset the negative impact of the overvalued dollar.

8. Strong support for domestic food assistance. The program would address the right of every American to a nutritious diet and, through the Food Stamp program, the Women, Infants and Children program, and other elderly and child nutrition programs, would provide adequate assistance to eligible needy families and individuals.

9. Farm credit and debt restructuring. Congress should immediately enact a temporary moratorium on farm foreclosures until the Act takes effect, at which time any foreclosed borrowers would be offered the right of refusal to repurchase any of their land or equipment not yet disposed of. The Act would contain provisions to allow deferral of principal payments for one to five years if the borrowers can project an adequate cash flow by the end of the deferral period to resume payments on the principal.

In addition, the higher price support levels and the FDR crop insurance program in the Act should greatly increase lenders' willingness to make operating loans to farmers and should halt the decline in the value of most farmland.

The Farm Policy Reform Act of 1985

Fact Sheet #1

HOW WILL THE BILL AFFECT CONSUMERS AND TAXPAYERS

WHAT WILL BE THE COST TO TAXPAYER OF THE "FARM POLICY REFORM ACT" FARM PROGRAMS COMPARED TO REAGAN'S PROPOSAL?

The most important feature of the "Farm Policy Reform Act", compared to Reagan's proposal, is the total elimination of all deficiency payments to farmers. It is a "zero-subsidy" approach which will result in taxpayer savings of over $16 billion each year. This bill insures fair prices in the marketplace, not through the federal treasury.

In addition, this bill includes effective supply management provisions, eliminating the accumulation of costly surpluses by the federal government, resulting in additional savings.

THIS SHOULD HELP SOLVE THE BUDGET DEFICIT, BUT WON'T THIS RAISE THE PRICE OF FOOD?

This bill would set a floor on market prices at average costs of production, roughly 70% of parity, for the major commodities. This would cause a one-time increase of $14.1 billion dollars to the U.S. food system, less than 1% of total consumer spending.

MAYBE A 1% INCREASE IS NOT A GREAT AMOUNT FOR SOME PEOPLE, BUT WHAT ABOUT LOW-INCOME PEOPLE AND THE ELDERLY WHO ALREADY GO HUNGRY ?

First of all, we are very concerned about the already high price of food for everyone. Corn flakes cost consumers over $250.00 per bushel, although the farmer only gets $2.50. Our federal government has continued to pursue a "cheap raw materials" policy, long after it abandoned a "cheap food" policy.

We must have fair prices for farmers and affordable, safe food for consumers. This requires that farmers receive a greater share of the already high food prices, and that we find ways to lower production costs, in order to lower the prices needed by farmers to survive. Although the farm bill primarily addresses the prices received by farmers, it also includes measures which can help lower the overall cost of producing food, thus lowering costs to consumers.

For example, interest rates. On the total farm debt of $220 billion, a 1% reduction in interest rates will result in a $22 billion savings, more than the entire anticipated additional costs to consumers. The Bill also includes additional funding for research on innovative production methods that are less capital and energy-intensive, like conservation tillage, which will result in lower costs.

THIS WILL CERTAINLY HELP CONSUMERS, BUT WHAT ABOUT PEOPLE WHO ARE UNEMPLOYED OR DISABLED WHO HAVE BEEN SEVERELY HURT BY CUTS IN FOOD STAMPS AND OTHER FOOD ASSISTANCE PROGRAMS?

The "Farm Policy Reform Act" restores the deep cuts made by President Reagan in the food stamp, WIC, and the child and elderly nutrition programs, and it incorporates revisions of these programs long advocated by nutrition experts. Total costs for these important revisions is less than $4 billion, less than 25% of the total anticipated budget savings.

IT ALL SOUNDS REASONABLE, BUT JUST HOW WILL PRICES RECEIVED BY FARMERS BE RAISED WITHOUT GOVERNMENT SUBSIDIES ?

By establishing a floor at the average full cost of production, with Commodity Credit Corporation crop loans, and then controlling supply to insure that the market can function without expensive and price-depressing surpluses.

SOUNDS GOOD, BUT HOW DOES THIS WORK ?

The single most successful farm program of our nation has been the Commodity Credit Corporation (CCC) non-recourse loan program administered by locally-elected county committees of the Agricultural Stabilization and Conservation Service (ASCS).This program allows farmers to withold their crops from the market if prices offered by the grain corporations fall below a pre-determined level. Farmers can pledge these unsold crops as collateral on a loan from their county ASCS, which allows them to pay their bills until the grain corporations offer a fair price.

Since farmers are able to withold their crops, the price eventually rises above the established level. Farmers then sell their crops and repay the loans with interest. If farmers using this program are participating in an effective supply management program, no surpluses can develop, and there are no costs to the government. From 1933 to 1952, when this program included strict supply management, it actual earned $13 million in profits from the interest paid on the loans.

The "Farm Policy Reform Act" makes use of this already established and proven CCC program to put a floor under farm prices at the average full cost of production, approximately 70% of parity. The Bill includes an effective supply management provisions, including across-the-board acreage reductions, marketing certificates, and a long-term National Conservation Reserve.

THIS MAY HELP TO PROTECT FARMERS, BUT WHAT HAPPENS TO CONSUMER PRICES IN CASE OF SHORTAGES OR DISASTER SITUATIONS ?

The Commodity Credit Corporation is responsible for maintaining an adequate strategic reserve of storable commodities. If farm prices rise above 110% of parity, the CCC will release these reserves onto the market, forcing prices back down below this "ceiling."

YOU KEEP REFERRING TO PARITY PRICES—WHAT EXACTLY IS PARITY ?

The Parity Price Index is the Cost of Living Index for farmers. As the cost of farming goes up, the parity price of a crop goes up. As costs fall, so does the parity index. The term "parity" was used to signify that the price levels established would include wages for farmers roughly equal or "on par" with other workers performing similar tasks. It is established monthly by the U.S. Department of Agriculture, using a computer model with over 300 different items in the formulation. Farmers today need over 70% of parity just to cover their cash costs, not including any payment for their labor or a return on investment.

BUT WON'T THESE HIGHER PRICES MEAN THAT THE BIGGER FARMERS WILL JUST GET WEALTHIER AND THAT LAND PRICES WILL SKYROCKET?

The "Farm Policy Reform Act" is designed to get prices up to the cost of production because prices below this level will mean continued liquidations and the destruction of the rural economy. In the process, farms of all sizes will benefit from a return to fair prices, including all the farms foreclosed on or purchased at "fire-sale prices" in the past few years by insurance companies, bank subsidiaries, and other non-farm investors.

Given this reality, the "Farm Policy Reform Act" has incorporated a number of specific provisions to address the land ownership situation which has been created by the chaotic conditions of the last decade.

First, producers who have grown larger than family farms will need to absorb an equitably disproportionate larger share of the set-aside required to balance supply with demand.

Second, specific programs will assist farmers who have been forced to grow beyond their desires and abilities under the "get big or get out" policies of Earl Butz, the USDA and the extension agents and economists from our land grant colleges. This will including debt-restructuring assistance for farmers wanting to restructure their farms to smaller, more efficient operations.

Finally, existing programs such as the limited resource program of Farmers Home will be re-directed to provide immediate emergency assistance and debt restructuring needed to keep families on their land, to re-settle families who have already lost their farms, and to help young and low-income farmers get started in farming.

The second part of this question, about the dangers of re-inflated land prices, is a serious issue. Our experience has been that during an inflationary era, when investors are looking for any and every hedge to protect their earnings, farmland will be driven up by speculators no matter what level commodity prices are at. Farm prices fell steadily during the late 1970's, precisely the time when land prices rose most sharply. Now that land prices have fallen almost 30% specualtors are beginning to move in, not because they see a rise in commodity prices, but because they see a profit to be made on the land itself.

The "Farm Policy Reform Act" will make it possible for producers to hang onto their land, thus stabilizing the current situation. This will prevent large tracts of land from falling into the hands of specualtors who would benefit greatly if they could re-inflated land prices.

In addition, however, we need to pursue other legislative changes, especially in the tax laws, in order to eliminate many of the incentives for non-farm, speculative investment in agriculture.

For More Information Contact:

Groundswell
P.O. Box 113
Downing, WI 54734

The Farm Policy Reform Act of 1985

Fact Sheet #2

HOW WILL THE BILL AFFECT US FARM EXPORTS

THE "FARM POLICY REFORM ACT OF 1985" CALLS FOR HIGHER PRICES FOR MANY OF OUR MAIN EXPORT CROPS. HOW WILL THESE AFFECT EXPORTS AND HOW WILL THIS AFFECT U.S. FARMERS ?

First, the "Farm Policy Reform Act" will enable farmers to keep prices from falling below the cost of production. This is absolutely necessary to stop the mass liquidations and to restore economic stability to rural America. We must re-establish fair prices or suffer the long-term consequences of a de-populated countryside.

This requires a careful study of the trade-offs between higher prices and total sales, especially exports.

A recent Chase Econometric study on the "Impact of US Wheat Prices on Exports" found that price was a factor in only 10% of U.S. export sales. The most important factors were currency exchange rates, interest rates, credit conditions, bi-lateral agreements, and exisiting political conditions.

In addition, other studies have shown that no matter how low we set the set the U.S. price, other countries will be forced to lower their prices to meet the new level. Many of our export competitors, like Argentina and Brazil, must export every bushel possible, no matter how low the price, to get desperately needed foreign currenty to meet debt obligations to international banks or to pay for imports. Fair prices for US farmers will have very little impact on most of our foreign sales.

BUT WON'T REAGAN'S PROPOSAL HELP BOOST EXPORTS ?

U.S. farmers are already losing over 50 cents on each bushel of corn exported. Reagan's only proposal for boosting exports is for US farmers to lower their price an additional 50 cents. In other words, to lose one dollar per bushel just to increase the export business for a handfull of grain merchants and foreign traders. Remember, farmers don't export grain, only the grain companies.

In addition, Reagan's proposal creates a number of new barriers to trade. For example, he has tacked on a brand-new 5% "Origination" tax to the export credit program, adding over $250 million in additional costs to our exports.

Most important, however, is the lack of any real efforts to bring the dollar back down to a reasonable level or to reduce the federal deficit. It appears that Reagan is attempting to keep the deficit as high as possible in order to force Congress into accepting deep cuts in a wide range of programs, like soil conservation and social security.

SO WHAT DOES THE "FARM POLICY REFORM ACT" DO TO ADDRESS THESE PROBLEMS ?

First of all, the export credit program will be expanded, not shackled by a new, burdensome "origination" tax.

Second, the bill contains a provision for a "Monetary Adjustment" where foreign buyers will receive bonus grain from CCC surplus to compensate for any negative effects of the imbalanced dollar. This will not cost the government any money, since they will have gained value through the rise in the value of the dollar which necessitated the adjustment.

And finally, the "Farm Policy Reform Act" cuts almost $16 billion in unecessary deficiency payments, most of which benefited grain corporations and foreign buyers. Over the next 4 years that will be a total deficit reduction of over $60 billion dollars.

BUT WON'T THE HIGHER PRICES JUST ENCOURAGE OTHER COUNTRIES TO PRODUCE THEIR OWN CROPS RATHER THAN TO BUY FROM THE US ?

It will definitely encourage farmers in poor countries to stay in farming, and to re-invest into increased productivity and soil and water conservation. The low prices we have set in the world market has been a tremendous dis-incentive to food production in poor countries. Farmers there were unable to compete against cheap US and European imports, and were forced to abandon their land and farming for unemployment and begging in the growing cities. Higher world prices has become a pre-condition for restoring food productivity and self-reliance to many of the currently hungry nations.

For farmers in other grain exporting countries, it probably will make very little difference. No other country can produce crops as cheaply as we can in the US, with our unique combination of fertile land, abundant water, cheap fuel, and incredibly high-yielding varieties.

Prices paid to farmers in most grain exporters is already higher than the US price. And most of these countries do not allow subsidized cheap exports, like US grain, to be "dumped" into their domestic market. For example, if Dutch importers wants to bring in US wheat, they must pay a countervailing levy that brings the low US price up to a level comparable with European prices. This means that our grain must compete on the basis of quality, not by under-pricing.

Price levels that are needed to stop the bankruptcy of rural America will put US domestic prices roughly in the middle of price levels around the world.

BUT WHAT ABOUT OUR HUGE CAPACITY TO PRODUCE FOOD, AND THE NEED TO EXPORT MORE FOOD TO BALANCE OUR TRADE DEFICIT. DOESN'T IT MAKE SENSE TO HAVE A LOWER INTERNATIONAL PRICE TO BOOST EXPORTS, EVEN IF IT MEANS SUBSIDIES TO OUR FARMERS?

The question of exports is certainly important to a number of elements of society, not just the grain cartels or farmers. There are thousands of jobs at stake, not to mention badly needed foreign earnings. But our export policy must not be designed in such a way that farmers are bankrupted in the process. It must take into consideration the following four points.

First, exports must profit the entire industry, not just the grain companies at the expense of farmers and rural businesses.

Second, our export policy must be closely tied to our natural resource conservation policy. We cannot continue to export a bushel of topsoil with each bushel of corn, and we must manage our production to insure the food security of our nation for future generations.

Third, we must be careful about the impact of our export policies on our political alliances. We cannot expect Europe or any other nations to remain strong friends if we continue to attack their national food security policies or to under-cut them in their traditional markets.

The fourth consideration is extremely important at this point in history. We must understand the impact of our policies on the farmers in food deficient nations, especially on their ability to earn enough from their crops to remain on the land and to invest in resource conservation and increased productivity. We cannot attempt to expand our exports at the expense of farmers in Third World countries, as Secretary Block has so often advocated. If food self-reliance is continualy destroyed in these poor nations, social chaos and rebellion will remain a serious problem.

I CAN SEE HOW THIS CAN HAVE A NEGATIVE EFFECT ON THIRD WORLD COUNTRIES, BUT WHAT ABOUT EUROPE ? AREN'T THEIR FARMERS SO INEFFICIENT AND SUBSIDIZED THAT WE COULD EASILY WIN THEIR MARKETS IF WE ONLY HAD A CHANCE ?

Europe is an extremely diverse area, with many types of farms. In general, however, the typical commercial farm is just as productive as a farm here in the US. What is different, however, is the commitment of Europe to insuring the future security of family farm agriculture and the entire rural economy. Holland, for example, is extemely densely populated, with an economy more industrialized than the United States, yet it still employs almost 6% of its working population directly in farming. Yields in Holland are impressive, with wheat averaging over 104 bushels per acre. Although land prices are quite high, up to $5-10,000 dollars per acre, government policies keep land rents and interest rates at reasonable levels. European farmers must be viewed as equals in the world of commercial agriculture.

In addition, we should remember that the Europeans are our biggest trading partners in total trade, taking billions more in US exports than we allow them to ship into the United States. We need their continued goodwill and cooperation in all matters of trade and foreign policy. Trade war sabre-rattling is mostly designed to take our attention off the real causes of our problems here at home.

BUT ISN'T IT TRUE THAT THE SO-CALLED STRONG DOLLAR IS WHAT KILLED US IN EUROPE AND AROUND THE WORLD. HAVEN'T WE PRICED OURSELVES OUT OF THE EXPORT MARKET ENTIRELY ?

First of all, for all practical purposes the US is the world export market. In 1983 we shipped 86% of the world's soy exports, 71% of the corn, and almost 40% of the world's exports in wheat. By comparison, the Middle East only controls 40% of the world petroleum exports. Anyone who talks about the US being priced out of the world market simply does not know what they are talking about.

But the imbalanced, so-called "strong" dollar is an overiding problem in a number of circumstances. For example, since oil is also traded in dollars many poorer countries have been forced to cutback on imports of food just to maintain their oil imports.

In some instances the "strong" dollar is working against us in unsuspected ways. For example we export a great deal of livstock feed to Europe. As the dollar goes up it costs the Europeans more money. But since much of the livestock being fed is for export in dollars, they receive the benefits of the rising dollar on the export of high-value products, more than off-setting additional costs for the raw feed products.

STUDY REVEALS THAT LOWER COMMODITY PRICES REDUCE FARM INCOME, REDUCE EXPORT VALUE AND COST TAXPAYERS MORE

The following data is extracted from "Options for the 1985 Farm Bill: An Analysis and Evaluation" recently completed by the Food and Agricultural Policy Research Institute, a joint undertaking of Iowa State University and the University of Missouri at Columbia.

The report analyzed four farm program options: (1) a "baseline" program similar to the current federal farm program, (2) a "free market" option similar to the 1985 farm bill proposed by the Reagan Administration, (3) an "enhanced export" option, and (4) a program in which commodity price floors-- the non-recourse loan rates-- are raised to 80% of parity. We have chosen her to examine only the baseline (current program) option, the free-market (Reagan Administration) option, and the 80%-of-parity option.

BASELINE OPTION (CURRENT PROGRAM)

CROP	TOTAL CONSUMPTION 1984 CROP YEAR	TOTAL VALUE	EXPORT VOLUME	EXPORT VALUE	COST TO GOVERNMENT
Corn	7.19 bil. bu.	$19.3 bil.	2.1 bil. bu.	$5.7 bil.	$1.8 bil.
Wheat	2.61 bil. bu.	$ 8.9 bil.	1.6 bil. bu.	$5.4 bil.	$2.9 bil.
Soybeans	1.91 bil. bu.	$12.0 bil.	780 mil. bu.	$4.9 bil.	- 0 -
Total	11.72 bil. bu.	$40.2 bil.	4.5 bil. bu.	$16.0 bil.	$4.7 bil.

MARKET-ORIENTED (ADMINISTRATION) PROPOSAL

CROP	1986 PROJECTED DEMAND	TOTAL VALUE	EXPORT VOLUME	EXPORT VALUE	COST TO GOVERNMENT
Corn	7.85 bil. bu.	$20.1 bil.	2.2 bil. bu.	$ 5.5 bil.	$601 mil.
Wheat	2.72 bil. bu.	$ 7.6 bil.	1.7 bil. bu.	$ 4.7 bil.	$380 mil.
Soybeans	2.06 bil. bu.	$12.5 bil.	870 mil. bu.	$ 5.3 bil.	- 0 -
Total	12.64 bil. bu.	$40.1 bil.	4.7 bil. bu.	$15.4 bil.	$981 mil.

PRICE FLOORS AT 80% OF PARITY

CROP	1986 PROJECTED DEMAND	TOTAL VALUE	EXPORT VOLUME	EXPORT VALUE	COST TO GOVERNMENT
Corn	6.25 bil. bu.	$29.5 bil.	1.6 bil. bu.	$ 7.7 bil.	$351 mil.
Wheat	2.56 bil. bu.	$16.7 bil.	1.6 bil. bu.	$10.2 bil.	$380 mil.
Soybeans	1.38 bil. bu.	$16.4 bil.	555 mil. bu.	$ 6.3 bil.	- 0 -
Total	10.19 bil. bu.	$62.6 bil.	3.8 bil. bu.	$24.2 bil.	$731 mil.

Compiled by Fred Lundgren and Doug Zabel, Texas Department of Agriculture.

For further information contact:
Groundswell
P.O. Box 113
Downing, WI 54734

[illegible]

Brown-Kewaunee-Door
Dairy Movement
Dianne Jacobs, Pres.
Route #1 New Franken, Wi. 54229

May 20, 1985

Representative Tony Coelha
Chairman House Livestock, Dairy, & Poultry Subcommittee
House Office Bldg., 403 Cannon
Washington, D.C. 20515

Dear Sir:

I would like this letter entered in the hearing record.

On March 29, Secretary John Block visited Green Bay, Wi. He appeared at a town meeting at the WBAY auditorium. Farmers were invited to attend and urged to ask Secretary Block questions.

The question I asked was "Why doesn't the government tax those processors that sell to the government and give tax incentatives to those who don't?"

The answer I received from Secretary Block was that he suggested the same thing 4 years ago but received no definite response. I am now asking it of you. Why?

Before I asked my question I made several statements. They were:

1. Our state legislature has told us that 68% of the farmers in our state are in serious financial trouble.
2. I have been listening to everything being said but I am still for a nation-wide quota system.

[illegible]

3. As the price of milk drops; in order to balance our cash-flow; we are going to have to produce more milk.
4. Farmers don't sell to the CCC — processors and cooperatives do.

The reason I am for a nation-wide base or quota system is because it would equalize the supply and demand of dairy products.

Enclosed is an article from the May 10, 1985 edition of Agri-View. I fully support the type of program outlined in this article and so do many of the farmers of Northeast Wisconsin.

Also enclosed are the composites of those farmers in Brown County with a herd size of 108 cows and on Agrifax (computerized farm bookkeeping system). These figures were in my 1984 Management Records.

The production figure of 15,137# is the average of the 323 herds on DHIA in Brown County in 1984.

By studying the figures on the 5 pages you will see what happens to the cash-flow on a dairy farm in Brown County with the different price structures.

I believe the processors and cooperatives determine the price of milk because they can control the amount of milk being sold to the government. They are using the CCC as a warehouse for storing their products.

Why not legislation to limit some of the sales to the CCC and again the use of tax incentatives to encourage the sale of dairy products on the open-market? And also a nation-wide base or quota system as suggested by the NFO?

Sincerely,
Mrs. Dianne Jacobs
farm wife & President of
Brown-Kewaunee-Door
Dairy Movement

P.S. Why, at this crucial time in Agriculture, is there no head in Washington for the Dept. of FmHA?
and Why is there so much money available for FHA and not for direct loans to farmers?
FHA - for new homes

(Attachments follow:)

Cash flow determines milk production: Avila

Agri-View May 10, 1985

MILLHOME

Dairymen produce milk according to their "cash flow" needs and not on its market price, Ric Avila, vice president of the National Farmers Organization said during a stop here on Farmers Appreciation Day.

Avila cited figures kept by the National Milk Producers Federation to make his point. He also noted "dairymen will not work 20 hours per day if they don't have to" in order to "cash flow" their expenses.

Based on those ideas, the NFO is working with other organizations to ask for a higher milk price (and therefore a built-in lowering of excess milk production) in the 1985 federal Farm Bill.

Trying to control production by a gradual lowering of government support prices, as is being proposed by the Reagan administration, "would be the worst possible thing for dairying," he said. "We need to counteract the negative force of lowering price to cut production."

The NFO is proposing a government support price of $17.60 per hundred for the milk needed for national usage and federal institutions and programs. The pay for any additional production would be $4.40 per hundred.

Under the NFO proposal, the Secretary of Agriculture would decide the amount of need every month. Dairymen would receive the full support price from a base of their production in the previous three years (according to the percentage of current need to previous production).

The $17.60 would be 75 percent of parity (a historic cost of production index) and more than $4 above the current price. The NFO would also restrict the sales of excess dairy products to the government except during May, June and school vacation periods.

This proposal has support from AFL-CIO leaders, the Farmers Union, and the American Agriculture Movement, Avila said. He is confident "farmers won't produce extra if they don't need to."

1984 Records Farm Production Cash Income	Similar Farms per Dairy cow 105
Dairy Products	$1822.12
Dairy Cattle (sale - calves culls)	191.93
Crop	111.82
Custom work	15.11
Refund	8.49
Other than above	137.19
Total Cash Farm Income	2,286.69
resale purchases (-)	10.40
Breeder livestock Purchases (-)	55.31
Livestock Inventory change	.97
Crop & Feed Inventory change	19.41 -
Accounts Receivable change	.81 -
Net Non-cash farm income	5.83
Lvsk. Payable, futures Eqty. Chg.	.06 -
Value of farm Production (Per cow)	2,207.46

2.

1984 Records

Expenses (Cash. Accounts Payable & Prepaid Expense change) 108 (herd size)

Variable Expenses	Per Cow
Feed	326.51
Fertilizer - lime	122.04
Other	70.85
Dairy Products	1.34
Fuels - Lubes	82.60
Repair Machine Eq.	89.23
Supplies	54.82
Utilities	61.17
Vet. & Med.	39.75
Wages	130.45
Freight - Trucking	16.87
Truck	9.32
Marketing Expense	48.05
Breeding	21.12
Other than above	126.87
Total Variable Expenses	$1201.06
Fixed Expenses	
Interest	409.68
Taxes	71.11
Lease	119.87
Insurance	28.50
Building Repairs	14.60
Building Depreciation	102.11
Equipment Depreciation	219.72
Total Fixed Expenses	965.62
Total Farm Operating Expenses	$2,166.69

		Per Dairy Cow 108
1984 Records	Income	2,207.46
	Expenses	-2,166.69
Net Farm Earnings		$40.78
Net Nonfarm Income		41.89
Operator Labor Draw - (family living)		242.53
Income tax		9.10
Net Earnings		$168.96 -

15,137 # average production per year per cow
x 108 herd size
1634,796 # milk produced in 1 year
÷ 100
16,347.96 the hundred weight

16,347.96
$13 premium price for milk
$212,523.48 income from milk for 1 year
÷ 108 herd size
$1967.81 income per cow per year

16,347.96
x 12.06 Price for April 1973 milk (grade A 3.5 fat)
$197,156.40 income from milk for 1 year
÷ 108 herd size
$1825.52 income per cow per year

16,347.96
x $ 11 predicted price for milk
$179,827.56 income from milk for 1 year
÷ 108 herd size
$1665.07 income per cow per year

16,347.96
x $ 10 predicted price for milk
$163,479.60 income from milk for 1 year
÷ 108 herd size
$1513.70 income per cow per year

	per cow
Dairy Products	$1822.12 (1984)
	- 1665.07 ($11 per 100#)
	$157.05 loss
Value of Farm Production	2207.46 (1984)
loss	- 157.05
Value of Farm Production	2050.41 ($11 per 100#)
Value of Farm Production	$2050.41 ($11 per 100#)
Expenses (Don't change)	2166.96
Net Farm Earnings	- 116.55 loss
Dairy Products	$1822.12 (1984)
	- 1513.70 ($10 per 100#)
	308.42 loss
Value of Farm Production	2207.46 (1984)
loss	- 308.42
Value of Farm Production	1899.04 ($10 per 100#)
Income from $10 milk	$1899.04
Expenses (Unchanged)	2166.96
Net Farm Earnings	- 267.92

(I own 480 acres, rent 150 acres - 103 cows on DHIA, 19,000 lb. milk per cow. We need a cost of production freeze.)

SKIC'S FARMS INC
MERRILL WIS

DAIRY POLICY ISSUES

In 1973-74, the price movement, when the doors were opened for imports of cheese, butter and nonfat dry milk, the price dropped $3.00 per hundred weight. Mid-December of 1975 butter shot up 30% and cheese jumped 47%. This is an example of the price shifts.

Farmers and consumers want to avoid swings of this type. Continuation of the price support program and permanent legislative authority for a supply management plan to be emplemented when surpluses begin to become excessive. Supply management as part of dairy price support policy is strong.

Their would not be a surplus if: 1. Excess quota for chedder, blue mold cheese and other cheese butter, frozen cream, nonfat dry milk and evaporated milk was not allowed. 2. Casin imported as a chemical into the US. would then stay a chemicial and not be used for dairy products. Imports of casin equal our surplus. This would then generate cash to the U.S. farmers for trucks, machinery and taxes to the government. For the sake of imports let casin be used as a paint thinner etc. but not converted to human consumption.

Sincerely,
Marie Skic

DAIRY LEGISLATION RECOMMENDED
by the
Wisconsin Dairy Coalition Committee

1. Develop a separate Dairy Bill (as part of the 1985 Farm Bill), effective July 1, 1985 through expiration date of 1985 Farm Bill. The price support level would be $12.10/cwt. which in effect eliminates the 50¢ drop scheduled for July 1, 1985 under the present law. The 50¢ assessment to farmers, which was dropped April 1, 1985, would be reinstituted. The logic or reasons for the above legislation is as follows:

   a. The dairy farmer would net the same $11.60/cwt. as scheduled under the present Dairy Program.
   b. It maintains a 50¢ higher price support level to consumers which, when combined with the 50¢ assessment to farmers, in effect can be used to reduce government purchase costs.
   c. If the present Diversion Program is allowed to expire, there will be a substantial increase in production and government price support costs between April 1 and October of 1985. The estimated cost savings to the government under this suggested legislation will be itemized on an Attachment.

2. The long term objectives of this Modified Diversion Program is to eventually balance supply and demand via the proper level of price supports at 3-5 billion pounds (Milk Equivalent) of government purchases. The cost of the Government Dairy Price Support Program would be roughly $500-900 Million Dollars to cover necessary reserves and/or government food distribution programs.

3. Specific provisions of the 1985 Dairy Program:

   a. A Diversion Program (when needed) with a $10.00/cwt. diversion payment and 50¢ /cwt. producer assessment to cap government costs between $500 Million and $900 Million annually.
   b. The producer would be given a choice of base period effective July 1, 1985 of the following:
      (1) 1982 OR 1983 OR
      (2) 1984
      For each succeeding year, the producer would have the option of using one of the last 3 year's annual production as a base, if the Diversion Program were in effect. Producers who participated in the present Diversion Program would have the option to participate at the same base level of participation if they wished to continue participation as of July 1, 1985.
   c. The Secretary would have the option of making producer assessments refundable to producers who held production at a base level if government costs were less than $500 Million.
   d. If the Secretary estimates that government purchases will exceed 5 billion pounds (M.E.) for the succeeding 12 month period with price supports being at $12.10 and the Diversion Program ($10.00 diversion payment and 50¢ assessment) being in effect, he can drop the price support rate in increments of 50¢ /cwt.

e. If the Secretary estimates that the CCC purchases will fall below 3 billion pounds (M.E.) for the succeeding 12 month period (in the absence of diversion payments and assessments) he shall increase the price support rate in increments of 50 ¢ /cwt.
f. The Secretary will phase out the diversion payments and assessments when it is anticipated that government purchases will fall to between 3 and 5 billion pounds of Milk Equivalent.
g. The Secretary can enter into diversion contracts of one or two year periods, at his option.
h. Payment per farm under the Diversion Program is limited to $50,000 per farm, plus the amount of assessments paid per farm participation allowable at 5-30% of Base.
i. There will be no restriction on sale of dairy cattle by program participants.
j. The Secretary should be given authority to scale back individual farm contracts on a pro-rata basis in event sign-up would cut production excessively on a national basis.

4. Why cap government responsibility at 3-5 billion pounds (M.E.), which is approximately $500-$900 Million per year?

   a. This is a reasonable, manageable, acceptable level of government responsibility in the common best interests of producers, consumers, and our economy.
   b. The responsibility for excessive production and costs should be borne by producers.

5. Why maintain the price support rate at $12.10/cwt.?

   a. This stablizes the price to consumers at a reasonable level. Consumers already benefited from a 50 ¢/cwt. decrease on April 1. Dairy products are a good buy at that price support rate which is in line with alternative farm commodities. Too low a price support rate will adversely effect consumption of meat and other sources of protein.
   b. If price supports are maintained at $12.10 instead of $11.60, it will tend to stabilize consumption. A drop of an additional 50 ¢/cwt. to consumers will have a negligible effect on increasing consumption.
   c. The dairy surplus problem involves three elements; namely Producer Income, Government Costs, and the Price to Consumers. Consumer prices at a $12.10 price support are reasonable. Farm income is relatively low and government costs are excessive. The Committee recommends the use of a 50¢ assessment for a net price to producers of $11.60, which should give the proper signal to reduce production. The 50¢ assessment will provide sufficient revenue to cover diversion payments to reduce production 8 billion pounds Milk Equivalent, which will cut production to the objective 3-5 billion pounds of government purchases.
   d. The new Dairy Program recommends a $12.10 price support level vs. the $11.60 scheduled on July 1, 1985. This amounts to about $650 Million. This amounts to about $2.25 per consumer. As an assessment against producers, it reduces government costs immediately to a reasonable level.
   e. The long term objective of the Dairy Program is to maximize returns from the marketplace. This is done by reasonable and stable prices to consumers with the maximum percentage of the consumer's dollar going to the producer. A fluctuating consumer price dampens consumption and increases middleman share of the consumer's dollar.

6. Why regulate the price to farmers with the use of assessments?

   a. If demand is held stable with a price support rate of $12.10, tools must be available to the Secretary to fine-tune production to the needs of the commercial market. Through refundable and non-refundable assessments, the producer will be made financially responsible for his production decisions.
   b. There is no other way to cap government costs and responsibility other than by assessments which shift financial responsibility to the milk producers.
   c. The flexibility of assessments, plus the fixing of responsibility for surplus costs, will discourage excessive lending, on the part of credit institutions, for expansion of dairy production.
   d. Assessments will give producers a shorter term price signal in addition to longer term changes in the price support level.

7. Why limit payment per farm to $50,000 plus the amount of assessments levied against a farm?

   a. It adheres to the present limitation per farm for other programs.
   b. It avoids the adverse publicity associated with unlimited payments per farm.
   c. It spreads participation on a more even basis. A criticism of the present program is that the Diversion Program resulted in excessive production cuts in certain regions, especially the South-Eastern U.S. region. A payment limitation per farm in areas with large farms would cut participation in those areas and increase participation in other areas on a more reasonable basis.

8. Why continue the $10.00/cwt. diversion payment?

   a. This is an effective tool which can be used to bring present surplus costs down to the objective cost level of $500-900 Million immediately.
   b. It provides a voluntary alternative or incentive to reduce production and, at the same time, provides a safety net for individual dairy farmer income. The $10.00/cwt. represents a marginal income of $10.00/cwt. to cover fixed costs vs. $3-$5 marginal income per cwt. the producer would receive if he produced the milk and paid the $8-$10/cwt. variable costs of feed, etc. By not producing, the farmer saves $8.00-$10.00 per cwt. in variable costs and the government saves $17.00/cwt. in purchase costs, of which $4-$5 is for processing, inspection, transportation, interest and storage costs.
   c. The $10.00/cwt. diversion payment provides a national incentive to reduce production in the highest variable cost and most inefficient production farms and areas.

9. Why lift the restriction on the sale of dairy cattle to only program participants which is in effect under the present Diversion Program?

   a. Such restriction prevents pure bred and high production/cow cattle breeders from participating in the program.
   b. It stifles the dairy industry drive for income efficiency through increasing production per cow.

c. The 15 month Diversion Program encouraged build-up of cow numbers, whereas a longer term Diversion Program with unrestricted cattle sales will discourage build-up of cow numbers.
d. Present participants may not sign up under the new program unless the sale restriction is dropped.

10. Will assessments and diversion payments be in effect for four years?

a. No. They will be needed only to correct the present surplus production problem. The $11.60 net price to farmers ($12.10 minus 50¢ assessment) will discourage production. Also, production costs will continue to increase during the next four years, which will dampen production and expansion.
b. Assessments and diversion payments should be unnecessary after two years. Thereafter, a realistic price support rate triggered by the level of price support purchases should properly balance supply and demand.
c. Assessments and diversion payments are needed to bring government costs down immediately. Once supply is balanced with demand, assessments with or without diversion payments can be used to fine-tune production to demand and/or cap government costs.

11. Why authorize an option of base years for participants?

a. Present participants should be able to participate at the same level under the new program.
b. Present non-participants should be given a choice of the latest 3 years of production history's to give maximum inducement to participate. It also provides producers flexibility of operations on a year to year basis.
c. To be fair to all participants.

12. Why should a Dairy Diversion Program be considered a better alternative than a Target Price-deficiency Payment Program?

a. That type of program has not worked for grain. The only way to reduce government costs is to reduce target prices.
b. The target price-deficiency payments approach holds some potential for grain producers to increase sales at world market prices. There is no possibility to increase dairy product sales in the world markets because the world market price is set by the ECC, which is a subsidized price less than the costs of production.
c. A target price-deficiency payment represents a direct subsidy to producers to support income and subsidizes consumer prices below necessary levels.
d. This type of program opens the possibility of eliminating the government Dairy Price Support Program which is necessary to insure an adequate supply, stabilizes production and creates orderly marketing. A price support program is necessary because milk is perishable and seasonal in production vs. consumption. If milk production and consumption are balanced on an annual basis, it would not be on a seasonal basis. Private industry would not assume the costs and risks involved in storage of seasonal and/or annual surpluses. The Government Storage Program benefits producers and consumers, not processors. Elimination of the Price Support Program would impact most heavily on Wisconsin, and more specifically cooperative owned operations. Shifting surplus responsibility from the government to the Midwest dairy farmers would not be desirable.

e. The Target Price-deficiency Program regulates too many farmers. To be effective, it would have to include cuts in production as being eligible to receive deficiency payments. Many producers prefer no regulation and resent programs which force compliance or make compliance mandatory. The Dairy Diversion Program combines a low net price to farmers which adheres to the free market principle and provides a voluntary participation program to cut production if desired.

f. The $10.00 diversion payment for not producing provides a strong incentive to reduce production, net farmers more income and reduce government costs compared to a target price-deficiency payment program.

g. The Dairy Diversion Program, including producer assessments, is the only way to cap government costs at a specified level.

h. There would be a yearly battle in Washington on the target price vs. government costs with the Target Price-deficiency Program.

13. Why should the Dairy Diversion Program be considered a better alternative than the Two-tier Pricing Program?

a. The Diversion Program is voluntary with no value accruing to bases. The Two-tier Program is mandatory, thus bases accrue values which would increase costs of production.

b. The Diversion Program affects the fewest number of people, thus is less objectionable to farmers. The Two-tier Program would affect every farmer. It is more complicated and much costlier to administer. The Dairy Diversion Program is administered entirely by the ASC Office. The Two-tier Pricing Program would involve monthy calculations and payments at the dairy plant level.

c. Two-tier pricing would tend to fix production patterns. Farmers would have less flexibility in management than with the suggested Dairy Diversion Program.

d. The voluntary diversion plan should be [redacted] in line with the market oriented philosophy of the administration.

e. The Diversion Program is simpler, easier to understand and administer, and has been accepted by most producers.

14. Why is the suggested Dairy Diversion Plan superior to a straight drop in price supports?

a. A simple drop in price supports would substantially increase government purchase costs for the next two years. The Diversion Program would assure an immediate drop in government costs to a reasonable level.

b. A simple drop in supports can result in overkill of productive capacity and erratic pricing of products to consumers. Tools are needed to fine-tune production to market demands to avoid wide monthly and yearly fluctuation in farmers incomes and consumer prices.

c. There is no potential to increase dairy product prices at subsidized world market prices.

d. Eliminating family farm operations will encourage corporate sized operations and financing by non-farm entities for tax write off purposes. Larger corporate type operations undermine locally owned agri-business in rural communities by direct factory purchasing of production supplies, farm processing, and volume bargaining at the expense of smaller farms and businesses.

e. In the absence of an incentive to reduce production, such as a diversion payment, farmers tend to increase production to increase farm income.
f. Excessively low price support rates can be nullified to a certain extent in fluid markets by cooperative bargaining for over-order premiums. This raises questions of equity between Grade "A" and manufacturing milk producers.

15. What are the major advantages of the suggested Dairy Diversion?

a. It caps government costs immediately at an acceptable level of less than $900 Million from ~~last~~ previous year's $2.6 Million and last year's $1.5 billion.
b. It provides for a low enough net price ($11.60) to farmers which should be a signal to reduce or hold production.
c. It creates a safety net of farm income on a voluntary basis.
d. It is market oriented. Farmers carry the responsibility and cost burden of any surplus costs beyond a fixed government responsibility.
e. Variations of price support level dictated largely by the volume of government purchases, which reflects all the factors of supply and demand of the domestic market makes the program market oriented.
f. The program is sufficiently flexible and effective enough to be applicable for a long period of time into the future.
g. The Secretary has total flexibility in use of assessments and diversion payments to fine-tune production to demand.
h. The program is voluntary and affects the fewest number of people.
i. The program is simple, easy to administer at the lowest cost possible. Farmers are not subject to mandatory base or pricing programs.
j. Provides farmers and creditors proper realistic price signals based on national supply and demand.
k. It eliminates regionalism. It encourages reduction of the most inefficient and highest cost milk production.
l. Its objectives can be integrated with conservation and credit programs.
m. The net price to farmers represents a cut in price comparable to other commodities.
n. It provides an orderly transition to market oriented price support levels.
o. It decreases dependency on the federal government.
p. It maximizes farmers returns from the market place.
q. The Diversion Program will control surpluses, while at the same time maintain farm prices and income at a low but reasonable level.
r. It assures consumers an adequate supply of milk and dairy products at a reasonable price.

In summary, the Dairy Coalition of Wisconsin believes the suggested program to be made effective July 1, 1985 (preferably April 1, 1985) would be in the best interests of producers, consumers, taxpayers and our economy. If the scheduled July /50¢ drop in price supports goes into effect, it will be much more difficult to try to raise price supports next fall. Therefore, the new legislation should go into effect as of July 1, 1985. It would also prevent a surge in production and government costs between April 1, when the present Diversion Program ends and October 1, 1985 when a new program would go into effect. The net price of $11.60 to farmers resulting from the April and July price support drops, coupled with eliminating the 50¢ assessment April 1, under the present program would be the same as a 50¢ drop in supports plus a 50¢ assessment under the suggested program to become effective July 1.

GENERAL FARM BILL OF 1985
(Dairy Program)

SATURDAY, APRIL 13, 1985

House of Representatives,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Burlington, VT.

The subcommittee met, pursuant to notice, at 11:15 a.m., at Trinity College, 208 Colchester Avenue, Burlington, VT; Hon. Tony Coelho (chairman of the subcommittee) presiding.

Present: Representatives Jeffords and Lewis.

Also present: Senator Leahy and Representative Martin of New York.

Staff present: Stephen R. Kerr.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Coelho. The subcommittee will please come to order.

We are meeting today to receive testimony from the Northeast regional interests about the dairy program and dairy issues relating to the formulation of the 1985 farm bill. Over the past several weeks, the subcommittee has heard from five regional economists who shared with us their thoughts about the current dairy program, what that program has accomplished or failed to do, and what they project will occur as a result of the implementation of the diversion program.

After that hearing, several members of this subcommittee were intrigued with that testimony and the general consensus among those economists about the needed direction for dairy policy.

In the following hearing, the subcommittee was provided with even further insight about the dairy program and the impacts of the diversion program. These hearings were designed to provide the members with background about the previous dairy legislation, so that when we begin to formulate the dairy provisions of the 1985 farm bill we each will fully recognize the concerns of the various interests as well as the needs of our dairy farmers.

It is only right that we now further our knowledge about the impact of the proposed dairy legislation in the farm bill by hearing from constituents from various regions in the Nation. Two days ago the subcommittee held a hearing in Holmen, WI., to receive the input from the Midwest area, and next week the subcommittee will be traveling to the Southeast to hear from the dairy farmers in that area.

I appreciate having the opportunity to join my ranking minority member, Congressman Jim Jeffords, in his Congressional District, as well as Senator Patrick Leahy to hear first hand what their constituents' concerns are about the farm bill.

I am pleased to be here and look forward to the insight we will receive from these farmers today. I appreciate the willingness of the witnesses to testify before our subcommittee, to hear about their views and concerns regarding future dairy legislation.

I am sure that each of us will learn from your testimony and that it will assist the subcommittee as they begin to consider such legislation. I am not going to open this hearing by telling you what the 1985 farm bill dairy provisions are going to look like. This hearing and others like it are being held to find out what various regions of this Nation want that bill to contain.

I hope that upon the completion of these dairy hearings, each of us will have a better insight on the needs of the farmer and will begin to formulate a bill to address those needs as well as address the concerns of consumers, the need to reduce the deficit, and respond to other interests as well.

I have continued to stress to representatives of the dairy industry during the recent hearings and while speaking to various organizations such as Mid-America Dairymen and Associated Milk Producers, that it is vital that everyone recognize each other's concerns about the dairy program, and specifically that we be united together to get something done this year.

As you know, it wasn't until the dairy groups across the Nation decided that they must unite, that a bill was finally passed during the 98th Congress. Even after the dairy industry united, they faced stiff opposition from a unique coalition which included the Cattlemen's Association, the American Farm Bureau Federation, the Ice Cream Manufacturers, and consumer organizations, as well as the administration.

This year, not only will the entire dairy industry have to be united, but they'll also have to negotiate and compete with other commodity and consumer groups in order to assure their needs are met in the 1985 farm bill. The challenge we face calls for not only unity among our farmers, but also for cooperation between Government, consumers, and agribusiness leaders if an effective long-term policy is to be developed and implemented in the 1985 farm bill.

The form that the 1985 farm bill eventually takes will have a significant impact on each and everyone in this country. Considering that farmers account for only 3 percent of the total U.S. population, the voice of the needs of agriculture and our farmers could be overwhelmed, unless agricultural interests are united.

The problem of increasing Federal outlays to subsidize farmers is especially significant in light of the massive deficit—the Federal deficit. I stress to you that the dairy support program will be one of the first programs under scrutiny, and because of this scrutiny it is important that we fully review what has occurred in the dairy industry and exactly why Congress has continued to amend the provisions of the dairy support program, unlike other agricultural programs.

In the 1985 farm bill, we should strive to establish a set of congressional guidelines which can accommodate the needs that may arise in the unforeseen or emergency situation, and thus eliminate the need for separate legislation to deal with many of the inevitable changes as they come up.

It is my hope that these hearings will provide us with a foundation in which dairy legislation can be based to assure that the needs of the dairy industry, of agriculture, of consumers, and of our Nation are met.

As we begin these hearings I'd like to stress to the witnesses that we intend to stay on schedule and that we will limit everyone to 5 minutes so the panel then will be able to ask questions.

I'd like to first recognize my colleague, Mr. Jeffords, and, again, thank Jim for hosting us and thank him and his staff for all their work to get this hearing together.

Jim.

[The prepared statement of Mr. Coelho follows:]

OPENING STATEMENT OF
HON. TONY COELHO
CHAIRMAN, SUBCOMMITTEE ON
LIVESTOCK, DAIRY, & POULTRY

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It is only right that we now further our knowledge about the impact of proposed dairy legislation in the Farm Bill by hearing from constituents from various regions in the nation. Two days ago the Subcommittee held a hearing in Holmen, Wisconsin to receive input from the Mid-West area and next week the Subcommittee will be traveling to the Southeast to hear from the dairy farmers in that area. I appreciate having the opportunity to join Congressman Jeffords in his congressional district, as well as Senator Patrick Leahy to hear firsthand what their constituent's concerns are about the farm bill. I am pleased that I am able to be here and look forward to the insight that we will receive from these farmers today.

I appreciate the willingness of the witnesses to testify before our Subcommittee today about their views and concerns regarding future dairy legislation. I am sure that each of us will learn from your testimony and that it will assist the Subcommittee as they begin to consider such legislation. I am not going to open this hearing by telling you what the 1985 Farm Bill dairy provisions are going to look like. This hearing and the others like it are being held to find out what various regions of this nation want that bill to contain. I hope that upon the completion of these dairy hearings, each of us will have a better insight on the needs of the farmer and will begin to formulate a bill to address those needs as well as address the concerns of consumers, the need to reduce the deficit and respond to other interests as well.

I have continued to stress to representatives of the dairy industry during the recent hearings and while speaking to various organizations such as Mid-America Dairymen and Associated Milk Producers Inc., that it is vital that they recognize each other's concerns about a dairy program, and specifically the concerns of each of the regions. As you know it wasn't until the dairy groups across the nation decided that they must unite, that a bill was finally passed during the 98th Congress. Even after the dairy industry united, they faced stiff opposition from a unique coalition which included the Cattlemen's Association, the American Farm Bureau Federation, Ice Cream Manufacturers, and consumer organizations.

[illegible]

[illegible]

[illegible]

OPENING STATEMENT OF HON. JAMES M. JEFFORDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VERMONT

Mr. JEFFORDS. I want to thank you, Mr. Chairman, for coming here. I want to let everyone know that I was with Chairman Coelho in Wisconsin on Thursday. He flew all night from California to be at that hearing. He had to fly back the following night to be at commitments in California and he turned around and flew all last night to be with us today.

So, if he falls asleep at the table we'll all understand, but I know with the vigor that he has always demonstrated that that's not going to occur. But, I want to thank him most profusely for his tremendous effort in being here with us today and for allowing this hearing to come forth.

I also want to thank Tom Lewis who is here from Florida, the other end of the coastline, and he is also a very dedicated member of our committee.

I want to welcome you to Vermont, Tom. I took him to the most nontypical farm in Vermont this morning—that's all we had time for—was to go down to Shelburne Farms. That was the closest that I could offer to the farms they have in his district of Florida. But, he didn't like that comment too well.

Anyway, welcome here and I'm pleased that you could be with us. Of course, Senator Leahy, I appreciated very much the opportunity to appear with you at your hearings, which went very well, with Senator Cochran from Mississippi.

I think we should realize we're very fortunate to have these hearings here in Vermont. There are only going to be four, possibly five, dairy hearings in the country in the House, and I think there's only going to be a couple in the Senate, if any, so, we're really fortunate. Which recognizes, of course, not only the value of dairy to our area but the fact we have obviously the smartest farmers, the ones who know the best and what the programs ought to be anyway.

Mr. COELHO. Be careful, be careful. [Laughter.]

Mr. JEFFORDS. Of course, there are some others around the country.

Mr. COELHO. Here and there.

Mr. JEFFORDS. I want to give you an idea—the difference in the hearing and the kind of dairy testimony that we will be listening to. We were in Wisconsin where somewhere between 10 and 20 percent of the milk is used as fluid milk. Most of it goes into the manufacture of cheese and butter.

In Florida, where we will be going next weekend, it's just about the opposite where about 90 percent goes into the retail markets, in milk at the stores and a little over 10 percent toward manufacturing.

In Vermont, we're sort of in the middle. We're about 50-50, and a similar situation in California only somewhat more of theirs is fluid milk.

So, there's a wide variety of interests to listen to as we go from one area of the country to the other.

Also, we are, of course, at the end of the diversion program, as farmers well know. I mention that because part of this hearing will be to ascertain as to what will happen when we go, if we do go—as all the facts seem to indicate right now we will be having another price cut in July to $11.60. I have a bill which is—and Senator Leahy does—that would postpone that to October because we believe it's counterproductive to do it that soon. We'd rather handle it in the farm bill like any information that people might have on that.

But, I would point out that the diversion program which was highly ridiculed at the beginning turned out to be really the only successful farm program we had last year. It cut the cost to the taxpayers rather by $1 billion. It got the supply of milk under control. We had the first reductions in milk production in 5 years, and as a result of that, we cleared out the cheese and the butter from the storehouses pretty much. We still have the perennial nonfat dry milk, but things are in pretty good shape.

We also warned the farmers at the beginning of the program that if they did not get together and keep production down that they probably would be hit with another price cut. We'll know soon whether or not that production is going to go up but it looks like it will and we'd like to know what the impact of that $11.60 would be.

As has been pointed out, we've got to come up with a farm program. One of the criteria we've got to live by is we've got to come with a program that won't spend any more than we did last year, about $1.55 billion. Now, most of that, though, is really not a cost in the sense it goes to school lunch programs, et cetera.

But, we're going to have a very tough time reaching the decision on the farm bill. Also, I know, that the next 10 years in this area and around the country are going to be the most difficult that dairy has ever had. We're facing structural changes that probably cannot be turned back. Given the importance, therefore, of what the subcommittee must do, I really appreciate the turnout and the number of witnesses we're going to have.

And, again, thank you for coming here.

Mr. Coelho. Thank you, Jim.

I'd like to also point out for the record that Jim was talking about how successful the virgin program was. We're having a hard time convincing certain people that it was—including the consumer groups, the cattlemen, and a few others, but we at the hearings in Washington were able to make that very clear to people and even the adminstration, who still does not want to admit that it was—successful, had to admit all the things that Jim said, plus one other critical point. That the American dairy farmer, through the tax that we imposed, has paid for the cost of the program and has contributed an additional $500 million to the Treasury. Now, that ain't chicken feed, and the point is that it was successful, we did what we were told to do, we are contributors to the Treasury and we should receive some of the benefits for it. We're not yet, but we're not through yet in getting our point across.

Mr. Jeffords. One more point that I didn't mention either and that's the promotion program that that put in, which was the long-term program which—there was some question among dairy farmers, but now it appears that, at least from statistics we each got in the hearing in Wisconsin—which was the area of the least support, that well over 60 percent of their farmers support the program now which is also another success of that program.

So, we have a good past to look at, the last immediate year anyway.

Mr. COELHO. Good.

I might just point out if some of the witnesses want to testify to this point, we are considering putting in the dairy bill a provision that would set up a commission to review for us during the next 4 years as the best way to make the transition into—with the new technology for agriculture, for dairy specifically, what to do with some of the surplus problems, et cetera.

And, that we may turn that responsibility over to the Dairy Promotion Board because it reflects dairy farmers from all over the country. We're considering that. That's an option that will be before us, so if anybody wants to address that, we'll be happy to hear it.

Now, from another dairy producing area, Tom Lewis is here and we appreciate him traveling up here. We also, as I indicated earlier, will be traveling down to Florida to see how the Florida producers produce their milk and what their problems are.

Tom, thank you for coming and welcome.

OPENING STATEMENT OF HON. TOM LEWIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. LEWIS. Thank you, Mr. Chairman. It's a pleasure for me to be here, particularly in the land of Ethan Allen, Jim Jeffords, and Pat Leahy. It's beautiful country up here. Today I understand it's pouring down rain in Florida. I do hope when the subcommittee travels down there next week we'll have a day like you have here.

It's interesting, the Agriculture Committee in the House. You have three members sitting here, the one member and the chairman of the subcommittee—Tony Coelho is from the Far West, and then you have Jim Jeffords, the most far-northeastern member, and I'm the most far-southeastern member.

As you can see, we have a regional triad on this subcommittee and the differences in dairy are certainly represented by this triad. I know in the Southeast we can't get agreement, but I do hope that we all can get a general agreement before we go to press with the farm bill.

I consider it a privilege to be here and have the opportunity to listen to the type of dairy problems you have. They are certainly different than we have in Florida, and I consider it an honor to sit here at the same table with you, Senator Patrick Leahy.

Thank you very much for allowing me to be here.

Mr. COELHO. Thank you, Tom.

I would now like to introduce your Senator, but also a very close personal friend of mine. Someone that is extremely respected in Washington, Pat Leahy.

OPENING STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

Senator LEAHY. Thank you very much, Mr. Chairman, and I also want to thank you for coming here.

I've heard it said that your mail is now sent to you—forwarded to the red eye special, the overnight flight. The chairman is the only person that has to be concerned about immediate dry cleaning service at the airport because he goes back and forth, and one of the reasons is because he's good enough to pay attention to us in here and other parts of the country and show that kind of concern.

So, I thank you very much for coming here, and, Congressman Lewis, I know that you had to do an awful lot of moving around to get up here and make connections to get up here. I know it has not been an easy trip for you and I can't tell you how much I appreciate the fact that you've come here.

I especially, though, want to applaud Congressman Jeffords in having these hearings. He mentioned that there are, outside of Washington, very, very few dairy hearings will be held in the country. We had one for the Senate hearing and the ones that have been mentioned here today.

I think one of the things that went unsaid there, and Jim can't say it but I can say it, and that's that his own seniority and position on the subcommittee made it possible for the House committee to consider coming here and I applaud him for that. I think that all the people here in Vermont ought to take some satisfaction of the fact that Jim——

Mr. COELHO. Would my colleague yield?

Senator LEAHY. Sure.

Mr. COELHO. I would only correct him on one thing. It wasn't that with his seniority and his respect on the committee. It wasn't a consideration. I mean, we had to do it.

Senator LEAHY. We may be a little bit staid here, but people should know that 100 percent of the Northeast Congressmen who serve on agriculture committees are here, in both bodies.

A few weeks ago when our own subcommittee was up here, chaired by Senator Cochran, the hearing that we had was well worthwhile, and one of the things that—and, you know, you might wonder why you spend so much time listening to this. It's not just because we get to get the maple syrup, although I must say that I thank the Hale Mattoon family and everybody else who made that possible. It is nice to be home and come back with maple syrup when you have three teenage children. You know what that requires.

But, we also are here because the future of dairying in the State and the future of the industry nationally is at stake, and that's really an overstatement. I think we've reached that point.

Now, 8 years ago we were debating proposals to increase price supports to 90 percent of parity and now parity is approximately 57 percent. The issue has become the survival of the very price support system which made the industry strong over the years. And, none of you should think that the task of arriving at a consensus which will satisfy all dairy farmers will be easy. I mean, just the disparate areas of the country representative at this table and the concerns that are involved.

I'm not sure that everybody here would agree on a single program. I know at our hearing in Montpelier, Senator Cochran and I heard every proposal from supply control to reductions in price supports.

Now, in the most emphatic manner I want to say that the dairy industry in this country is going to have to be unified. If it is not unified and we go forward in this farm bill, there's going to be a divide and conquer effort, and I don't think anybody is going to have any real control over what might come out of it.

The administration proposed a total elimination of the dairy program, as we know it, by 1987, and if the industry in this country isn't able to agree on a long-term solution, that's exactly what's going to happen. We need a long-term policy which can provide clear directions to the farmers of this country and to the farmers of our own State of Vermont.

To continue to adjust the program in Congress every 12 to 15 months, all that means is the death of the program, and, therefore, what you ask us to consider must look beyond next year or the year after.

We need, Vermont needs, the country needs, a dairy program which is going to adjust to the changing conditions in the industry. The industry may face major adjustments with the introduction involving growth hormones, embryo transfers, feed additives.

All these technologies have the potential of increasing milk production in this country.

If Congress was to debate the content of a dairy program under extreme surplus conditions, I'm not ready to predict the outcome, although I don't think it would be very good. This year debate is not going to be easy. None of them have been in the past, but fortunately we can look back to the past 15 months of the diversion program with some satisfaction. Production in this country was reduced by 4 percent. The cost of the dairy program was cut by almost $1 billion.

What other farm programs can talk about a cut in the cost of the program because of the efforts made by the dairy farmers? More importantly, after several attempts to fine tune the program since 1980 we finally succeeded. The program worked. I think it worked for you and I think it worked for the whole country. And, that's important. We gained some time.

We also gained some previously tarnished credibility. I remember when we were debating the last area bill. I remember the editorials—one was even, unfortunately, in a Vermont paper—that were so critical of dairy farmers around the country. I think a lot of the credibility that might have been tarnished then has been regained because of the work of the dairy industry.

Had diversion not worked and had production climbed rapidly we would have faced a move to eliminate dairy price supports altogether this year in Congress, and the administration most certainly would have succeeded in their efforts this year.

The task isn't easy. Yesterday the dairy cooperative managers and presidents from the Northeast met in Burlington to discuss dairy legislation and Congressman Jeffords and I met with them then. And, throughout the past summer, Vermonters have been meeting to discuss the dairy bill.

So, I hope the appearances today help bring it about.

Now, I have gone beyond whatever the rules of the House would allow. That, unfortunately, is one of the things that happens when somebody from the other body comes over because we don't know how to keep it brief. Again, thank you, Mr. Chairman, and Congressman Lewis for coming up here, but especially to applaud Congressman Jeffords for inviting me.

Mr. COELHO. Thank you very much, Pat.

I just want to let everybody know that Jim knows how to treat guests coming in. I don't know what he did for you, Tom, but in my muffins there were raisins. Now, we grow all the raisins in the United States in my congressional district so it was smart thinking, Jim, whoever did that.

I can't wait to go to Florida and see what they do for me when we go to Florida. [Laughter.]

Now I'd like to introduce the Governor of your State, Madeline Kunin for a statement. You all should be very pleased to have her as the Governor. I've known Madeline for a long time and I respect her a lot.

Madeline, you're free to proceed, and I understand you have Commissioner Paul Stone with you. The two of you may proceed with the statements.

STATEMENT OF MADELINE KUNIN, GOVERNOR, STATE OF VERMONT

Governor KUNIN. Thank you very much Congressman Coelho, Congressman Jeffords, Congressman Lewis, and Senator Leahy.

First of all, it's a real pleasure to have you in Vermont for this particular event and we're appreciative that you recognize the importance of the dairy industry to the State of Vermont by your presence here. And, this is, as was already noted, the second time that I've had an opportunity to testify about my views on the 1985 farm bill to Members of Congress. And, frankly, it's tops on my list because it's very, very important to the State of Vermont.

As you could tell when your planes landed, Vermont is somewhat different from the rest of the country not only in its landscape but how significant the dairy industry is to our State. In the landscape you can see that these small valleys and hills and what we call hard scrabble farms were carved out by a lot of labor, by the people who were here 200 years ago.

One of the things we're most concerned about is that by some mistake or ignorance or not giving enough thought that that labor of 200 years could be eliminated by a misguided policy today. That is, I believe, what you want to avoid and certainly what we want to avoid here in Vermont.

Just to put that into figures, we've got 3,200 dairy farms today in the State of Vermont and only 94 of those exceed 1,000 acres. So, we're small by other standards but those 3,200 farms are very, very critical.

Another change that I think is true, not only in Vermont, but elsewhere, is that when we used to talk about losing farms, there used to be a kind of a shrug of the shoulders attached to it. There was a belief that we're simply separating the wheat from the chaff, that the poor managers who don't know how to add up the figures, who haven't had sophisticated training in computers and everything else, those are the ones that are going down the tube. That's sort of a weeding out process that may leave the system more healthy, in fact, than it was before.

I don't think we're saying that any more. I think we're recognizing that that phase is over with and now the farmer who is being threatened is the very good farmer, the good manager, who may be younger and who inevitably is younger but has a higher debt service and is just this kind of farmer who we must keep in farming in order to maintain the vitality of agriculture.

So, I believe we're threatening very good farmers and we're really threatening the whole future of the dairy industry.

Earlier this year I had an opportunity at the National Governors Conference to ask Secretary John Block a question at a subcommittee meeting and I asked him: What is your estimate of how many dairy farms would go out business under the proposed changes in the 1985 farm bill?

Well, his answer, frankly, shocked me. He simply said he didn't know. They have not in fact, to the best of my knowledge, calculated what the impact is of this decision of the cumulative decisions in the proposed farm bill.

The major impetus in the bill appears to be to reduce the deficit. Now, certainly we recognize that all of us have to work together to reduce the deficit and Vermont and dairy farmers around the country are willing to do their fair share. At the same time we have to ask some other questions. What is this doing to rural America? What is this doing to agricultural policy?

In Vermont we cannot forget about rural America because that's who we are. I believe we must develop an agriculture policy which will keep the dairy farms in this State alive and which will make the spirit of rural America not just a sentimental part of history but a real part of our future.

I believe that the message the administration is giving is phaseout dairy price support over the next 3 years and then compete in the marketplace. But, let's be realistic. Where is that marketplace? Today there really is not a free market system anywhere in the world for either dairy products or agriculture in general.

I believe it's of strategic and economic importance for the United States to create a climate in which it's possible for good farmers to make a profit, not guarantee a profit but to make a profit, and that spirit must be maintained alive.

The Reagan administration and the Congress I believe have to grapple with some basic questions. How many farms do we want in this country? Do we want food produced in certain regions of the country and leave other regions without that possibility of growing food for consumers? What happens if there is a catastrophe in one area of the Nation and we're totally dependent on that area of the Nation? We don't have any other resources.

Nobody has fully, fully answered those questions. Now, dairy leaders, co-op presidents, policy managers, commissioners of agriculture, and farm bureau presidents from the Northeast met in Vermont this week in an effort to reach some agreement on these issues. They discussed the goals of the national dairy policy and their findings I believe are sound.

Senator Leahy mentioned the need for unity in this area and I certainly strongly urge that approach as well, and I think we're beginning to see it happen. Out of the sense of crisis there is a feeling we've got to speak with one voice.

The goals of that dairy policy as they articulated it should be to provide an adequate milk supply which benefits consumers at reasonable prices to prevent violent farm price fluctuations, which waste farm resources, and are detrimental to consumers, to create dairy production that is widespread throughout the Nation so that we are not dependent on one area of the Nation, to create self-sufficiency in milk production.

These same dairy leaders made specific proposals for the 1985 farm bill and I would urge you to examine those, that the price support in effect since 1949 has worked well except for the past 6 years and should be continued. And, that there is a need for an index or a formula to move farm prices up or down, according to supply and demand. That this is necessary to prevent high farm prices from stimulating the kind of surplus production we've had in the past 5 years and that the current dairy promotion effort being funded by dairy farmers is extremely necessary and should be continued.

I personally agree with their conclusions.

Let me bring up another subject briefly which I realize may not be directly related to the 1985 farm bill, but tells you something about the problems we face. I, like many Governors, have an action line where people call in with their problems and concerns.

We've received a number of distressed calls about the Emergency Food Commodity Program. We've got the food, butter and cheese, and other commodities, but we do not have the money to distribute it, to store it, to make certain that people do get it.

In the next appropriation the Reagan administration has allocated zero dollars for the transport and storage and distribution of those emergency food commodities. The State of Vermont, in it's budget, has agreed to allocate some money to do that so that we do not waste that money, so that we do not deny the people who are in desperate need of those products.

There's an irony here, a terrible irony, that there is all this surplus here, that a very modest sum of money could be allocated by the administration in Washington to make sure that this is distributed appropriately to the people in need. I'm sure we could give out much more food in the State of Vermont, that we could address some of the nutrition problems, more adequately than we have in the past, and if that's true in Vermont, it is certainly true in the Nation.

So, I would urge you also to look at this side of the equation. That here in our own country we have people who are hungry and who do not have adequate access to butter, milk, cheese, some of these dairy products and it would take a very small appropriation—$90,000 in the State of Vermont—to make certain that this program works well. Small in terms of Federal dollars being spent on other major programs.

So, I would urge this subcommittee also to look into this part of the equation.

Earlier I discussed the Federal deficit and I do agree that the deficit is everybody's concern. But, again, I believe that the deficit should not drive agricultural policy alone.

From a more local viewpoint let me just stress in conclusion that agriculture is essential to the survival of Vermont as a State. It's not a small part of our way of life or a small part of our economy. It's the foundation of who we are, of our tourist industry, as well as other sectors of our economy. And, frankly, we can't imagine life without the family farm.

So, I ask you, as you help shape the agricultural policies of the future and that your subcommittee will play a very vital role in this, that you give most careful consideration to the survival of the dairy industry in States like Vermont. Now, Vermonters are proud, as you know. We don't want a handout. We're used to tough times, and we have a lot of native ingenuity that has enabled us to survive which has sometimes sprung from living on the edge of a harsh and often unyielding climate. But, today, in 1985, whether we like it or not, and we don't always like it, we know we are somewhat dependent on what is decided by you in Washington, DC. So, we urge you to act in our best interests and the best interests of the Nation.

Thank you.

Mr. COELHO. Thank you, Governor. Excellent statement.

Mr. Stone, do you have any comments?

Mr. STONE. I have a statement. Do you want me to proceed?

Mr. COELHO. Yes.

STATEMENT OF PAUL A. STONE, COMMISSIONER OF AGRICULTURE, STATE OF VERMONT

Mr. STONE. Welcome to Vermont, Congressman Coelho and Congressman Lewis. We are very proud to have you here and we appreciate your taking time to come and thank you, Jim Jeffords and Senator Leahy, for coming again to hear our thoughts, as you have so many times in the past.

The maple syrup you find before you is a gift from the people of Vermont and we hope you can remember our needs when you go home and enjoy the syrup. If I had realized you had such a great need, Senator Leahy, I would have brought a gallon, but I guess——

Senator LEAHY. I'll be back. [Laughter.]

Mr. STONE. Let's hope you are not back any time too soon.

Mr. COELHO. Sometimes it's better not to give him an awful lot at one time. Just give him a little bit at a time. They remember you better that way.

Mr. STONE. I'm learning all about politics these days.

At any rate, I hope you're not back in the near future for this kind of a hearing because I want to remind you that we've had nine pieces of dairy legislation on the national level, and its getting about time that—to do something on a more long range basis.

I'd like to thank the Governor very much for coming today. I think it shows that she has a tremendous interest in the agriculture economy of the State of Vermont and the society of Vermont because the agriculture, as she said, plays a great deal in the role of our society.

We have approximately 3,200 dairy farms, as the Governor mentioned, about 184,000 cows, and we provide about 40 percent of the needs of New England in milk by exporting 90 percent of our production. Dairy income is responsible for nearly 90 percent of Vermont's agricultural income, and we depend more heavily on dairy income for our agriculture income than any other State in the country.

Vermont is willing and able to provide this so long as we get a fair return for our efforts and our investment. Any national policy that prevents this well established system from functioning or radically alters it is probably—will be a tremendous disservice to the people of New England and the people of Vermont.

If you look at consumption of all food in New England you'll find that we import 80 to 90 percent of it. This is due to many factors. Our climate and topography limit food production. Beyond that development pressure has gobbled up tremendous amounts of prime agricultural land.

We sincerely hope that future signals from Washington will not discourage the one agriculture enterprise that we are truly good at and that is producing high quality milk.

Our family farms, some held by families for centuries, can compete efficiently if we're given a chance.

The Reagan administration's proposal for the 1985 farm bill is not in the best interest of Americans, and it is cruel. They propose phasing out the price support system in 2 years to replace it with a direct payment to support farm income.

However, the direct payment program is meaningless since target prices are set too low to be any kind of a safety net or an enhancing program. If this program becomes law, large numbers of Vermont farmers will be forced out of business and for that matter many other farmers across the country.

I'd like to read some excerpts from a Post, Washington Post article by James R. Dickenson. It's entitled, "The Farm Crisis: Twaddle and Truth." I will not read the whole thing. I'm going to submit it for the record, but there are a couple of excerpts here that are very appropriate and well said.

> There is a lot of nonsense about the Nation's current agricultural woes being spread around the country these days. Much of it by President Reagan, much of it supposedly by tough-minded and knowledgeable administration spokesmen such as David Stockman, who seems to believe that the trouble is simply a matter of greedy, stupid farmers being punished with bankruptcy.
>
> People get uneasy when they sense that agriculture is in serious trouble because they know that the security of the Nation's food supply is crucial.
>
> Foremost among the erroneous ideas so blithely being fostered by the free marketeers of the administration is that it is inefficient, marginal and greedy farmers who are being forced into bankruptcy as atonement for their mistakes and sins, and that they will emerge—that what will emerge thanks to the magic of the marketplace is a lean, efficient farm industry.
>
> The opposite is happening. Most of the farmers being forced into bankruptcy are younger, more aggressive, more progressive farmers, willing to take risks. Those who are surviving are generally older, less educated, smaller operators who are less productive but have a tolerable debt ratio.
>
> What we are seeing has little to do with efficiency. We're cutting out farmers on the basis of debt, not efficiency.

That's a quote from Prof. Neil E. Harl of Iowa State University who is one of the Nation's leading agricultural economists.

> We're cutting out the young aggressive managers who have set the pace in efficiency. And American doesn't have much access in agricultural productivity as we may think.

There is also the erroneous idea that the demise of a large number of family farms is inevitable because bigger operations are more productive. The Midwest corn, cattle, and hog farms, the peak efficiency is in the range of 600 acres and I would say that probably in Vermont it's less than that. We can compete—bigger operations don't enjoy additional economies and corporate farms particularly start suffering inefficiencies because of problems of management and motivation.

There are problems of control and coordination. Corporate employees are not profit oriented because they don't have a stake in the operation.

The farmers worst enemies are public policies such as huge Federal deficits that have the dollar overpriced and contribute to high interest rates and tax provisions that were supposed to help the full-time family farmers. Instead, they have mostly benefited the wealthy who invest in unprofitable operations as tax shelters and encouraged land speculators—sod busters—who are paid by the taxpayer to drain wetlands and plow under fragile grasslands to put into crops that are already in surplus.

There is a reason why the hard-ball remarks of David Stockman, a former flower child of the—turned Social Darwin, and the bad jokes of President Reagan. There's a reason for the contempt which they've been given. To quote President Reagan before the Gridiron Club, "I think that we should keep the grain and export the farmers." I think the contempt with which these statements are—have been presented by the people of the United States are well deserved and it proves that neither of these people know what they're talking about.

I think for any kind of dairy program to be successful, we need to develop a long-term agricultural policy. I do not foresee the right dairy program until we sit down and develop this policy. We must ask ourselves and answer some basic questions. How many farmers should there be, and who should they be? Should they be family farmers, as we know today? Should they be well-financed tax shelter farms?

There were 2.2 million dairy farmers in 1950 and today there are less than 200,000. Do we want that kind of a trend to continue?

Where will agricultural production be located in the future? Will it be concentrated in certain areas of the country or will we spread it out? Is food production of strategic importance? I think it is.

I think we, therefore, need to spread it out across the country.

Should our absolute goal be the cheapest food possible to ease consumer burden? How should we pay for this food? Should consumers pay for the entire cost of food via the consumer price or should we split the costs as we do now between the consumer and the taxpayer?

Is soil conservation important? Should our agricultural export policies be determined solely by an attempt to balance the trade deficit? If so, are we willing to do so at the expense of the family farm and increase soil erosion by improper land management caused by the pressure to produce?

I feel that time has come to do some long range planning and some goal setting.

Mr. COELHO. Mr. Commissioner, you'll have to sort of summarize, if you can, at this point.

Mr. STONE. OK.

I think that we should look seriously at the kinds of dairy policy that we want for the next 4 years in the 1985 farm bill and was very pleased to hear from Senator Leahy and Congressman Jeffords in the past week that the probability of having a bill by August is very good.

I would like to support the ad hoc committee of dairy leaders in Vermont who met for the last 8 months and who came up with basically this kind of a program. No. 1, to maintain a dairy price support program using CCC purchases to stabilize prices. No. 2, the secretary should install a dairy specific economic formula adjusted twice annually, based on an index of prices paid by dairy farmers.

The Secretary of Agriculture should have the ability to adjust prices up or down.

This committee took no position on the standby program.

Personally, I feel that there should be some kind of a standby program in case the price method of controlling production does not work. But I'll leave that up to you people who are dealing with the political end of it as to whether or not that's politically feasible and whether or not we should try to push for that kind of a program.

Finally, I support the present promotion program. I think it's highly beneficial and should be continued.

I would like to thank you very much for your time and for coming to Vermont.

I would be happy to answer any questions.

[The prepared statement of Mr. Stone appears at the conclusion of the hearing.]

Mr. Coelho. The chairman of the Agriculture Committee in the House, Hon. E (Kika) de la Garza of Texas, has announced that he intends to have a farm bill passed by May 15 so that we will meet that deadline.

As chairman of this subcommittee, I have said that I will comply with that schedule.

So, we are moving at a rapid rate, and we hope to have a subcommitee markup to the full committee so that we can be part of it and that we will be able to consider a dairy bill and farm bill in July so that we can have something ready to go.

The administration had indicated that if we don't, they intend to force us to revert back to the basic farm program, which, as you know, would hurt many of our people across this country.

So, we intend to stick to the schedule, and I'm sure that Pat and the Senate side intend to keep to a tight schedule as well to see if we can get something done.

Mr. Jeffords. May I just interject——

Mr. Coelho. Sure.

Mr. Jeffords [continuing]. So there's no misunderstanding, I think both Senator Leahy and I indicated that our bodies would pass a bill by August.

We did not go so far as to say that we would have a farm bill passed into law by August. I think that is, unfortunately, probably way too optimistic. I'm more concerned that we have any farm bill at all by the end of the year.

Mr. Coelho. I think that—in line with that, I think we should say that the—my prediction is that the President will veto anything we come up with and so, then, that we'll be fighting that out.

OK. We will start with the first panel, if they will come forward and take their seats so we can proceed.

Now that the Governor and so forth have testified, we will now stick very closely to the 5-minute rule.

Mr. Meerwarth, go right ahead.

STATEMENT OF JOHN MERRWARTH, DAIRY FARMER, EAGLE BRIDGE, NY

Mr. MERRWARTH. I came very ill-prepared. Everybody has got written statements and so on.

Mr. COELHO. Don't consider yourself ill-prepared.

If you have some comments, that's all we need. You go right ahead.

Mr. MERRWARTH. Thank you for inviting me, Congressman Jeffords.

I think I'm going to just outline our operation so that you can get an idea of where we come from.

We purchased the farm in 1972, very heavily mortgaged, had very little money in the operation at that time and felt that we could pull this off.

During the next few years, any moneys that we earned through the business, we put back in the business in expansions and so on, so that we really haven't paid down our debt load at this point.

So, we're probably one of the farms that is heavily in debt now.

We went through a refinancing program last year. We're in a little better shape. It looks as though we can withstand the next few years.

But you want to recognize that any moneys that we earned during those first few years were because of inflation, not because of what we earned from the product that we shipped out the door.

We were in the Dairy Diversion Program; we signed up for that last year. And you wanted some comments on that. We were very close to not going into that program because of the numbers. We did go into it; and at this point we're glad to be out of it, because we've got to produce more milk to create more dollars to pay our bills.

An example of that, I went, yesterday, to the local machinery dealer to pick up some parts for our machines for this spring's planting, and there were about four or five bags on the ground that you could carry under your arm. And the price tag on that was $400.

And I'm only saying this, not to be crying about the situation we're in, but so that you will understand where we're at.

There are two farmers that I know of in our locality that do not have the inputs for their crops this spring.

And you talk about a bill that you're going to put into effect and you're going to have to have the information by May 11—those men have to have their inputs for this year's crop by May 11.

The reason—the basic reason that they don't have their inputs at this time is the fact that they were absorbed throughout the winter. And normally, our inputs, when we hit the fall, are all now in silage, hay, and feed that are in storage. And through the winter we gain—our checkbook starts to grow. And by spring, why we are ready to put crops out.

This has happened in this day and age. Our bills are higher than they used to be. And things are pressing on us.

I think I'm going to conclude at this point by saying that if the dairy diversion—and part of the Dairy Diversion was advertising—if that did work, and it did, we should continue that. There should be some advertising—we're not interested in having price supports that don't leave us some—OK? We're in a position now where, by lowering the supports, that we're in serious trouble.

And again, I don't mean this to be wrong. I'm saying this as my neighbors, and I didn't come represented by Agri-Mark or somebody like that—although our milk does go to Agri-Mark. And we've enjoyed a good milk market through the Agri-Mark system in our area. We've pretty well obtained. We're in New York State. Our milk can go to New York or to Boston, and they're a couple of good markets.

We should be enjoying a high level of income, and we're not.

I just want to leave this message with you, and you've got a tough task, in making a new bill. We have got to [illegible] through price supports—and price supports have been on these [illegible], OK?

The CHAIRMAN. Right.

Mr. [illegible]. To drop the price supports at this point, I don't see how we can—there's a lot of the farmers are going to survive. Some of them will; some of them won't.

The CHAIRMAN. Thank you very much. We appreciate it.

Wait and we'll questions at the end of the panel.

Mr. DICKINSON.

STATEMENT OF DAVID C. DICKINSON, DAIRY FARMER, CENTER RUTLAND, VT

Mr. DICKINSON. Thank you very much for the opportunity to me [illegible] this morning.

I am David Dickinson, a dairy farmer from Center Rutland, VT. I live and work on a 100-milking-cow dairy farm which has been in the family for three generations.

The 1990 farm bill is of supreme importance to the dairy farmer, since the agricultural policy which it will establish shall either enable dairy farming, as we know it, to continue, or it will cause many well-managed efficient operations to disappear.

It is evident that, in the absence of any kind of supply control, farm income will continue to deteriorate. Even [illegible] efficient [illegible] testified that as support prices are lowered, Government support levels for the purchase of surplus dairy products will increase significantly.

We are involved in a vicious circle of producing more to maintain our cash-flow and thereby increasing the pressure to further lower the price.

It is evident, therefore, that some form of supply management should be a major element of the 1990 farm bill. The bill should include a quantity milk diversion plan or a "base-excess" pricing system which is designed around the concept of farm bases for production and a price incentive to maintain the base production.

One such option would be the so-called base and excess plan, the details of which I have included in my written testimony.

In the face of such compelling factual evidence as the success of the Milk Diversion Program, it is difficult to understand the reason we are not more persistent in pursuing the implementation of some form in the 1990 farm bill.

The Milk Diversion Program was historic in the results that it achieved and because it approached the dairy farmers' dilemma in an fundamentally new and constructive manner.

The facts are that the program was completely self-financed by dairy farmers, that it was effective in saving taxpayers over $1 billion through lower levels of purchase by the CCC, and that it reversed the trend of overproduction that had existed for the last 5 years.

This last benefit is very significant since no one actually knows where the surplus accumulation would have peaked out without the diversion program.

At the end of 1983, U.S. milk production had been up every month over the same month of the previous year for almost 5 straight years. However, in 1984, production was down in every month compared to the previous year. This more balanced supply of milk has precipitated an increase in price to the dairy farmer, since the M–W series, upon which the dairyman is paid, has come into closer alignment with the support price. While at the same time the farmer was experiencing a relative increase in his prices, the prices to consumers were not increased. In fact, retail milk prices during 1984 were below those of 4 years earlier.

In addition, the milk diversion concept maintains a reserve capacity of milk production, which would be instrumental in avoiding milk shortages that have occurred as recently as 1974.

I wish to especially thank Congressman Jeffords in particular for his pioneering efforts in making the milk diversion plan a reality. Its enactment was an outstanding legislative achievement.

I hope, however, Congressman Jeffords, that you do not become unduly pessimistic about the chances of securing compromise legislation in 1985 that incorporates some principles of supply management.

I may be politically naive, but it would seem that the millions of dollars a supply control program can save the Government has to account for something.

It is my understanding that the National Milk Producers Federation, Associated Milk Producers, and Mid-American Dairymen have all endorsed some form of supply management.

While dairy specific parity and supply demand adjusters are nice sounding terms, in reality they work against each other and do little, if anything, to improve dairymen's income.

The only solution to the problem, short of forcing many farmers out of business, is to develop a long-range supply management program.

Thank you.

[The prepared statement of Mr. Dickinson appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very much. Mr. Jeffords.

Mr. Jeffords. Thank you.

One of my dreams is that we could get David Stockman to come and listen to the farmers, which he ridicules—because when I listened to the two witnesses that we've had and listened to the very articulate statements they've given—and you understand better what we're faced with in this country than you do if you listen to the propaganda and the rhetoric that sometimes emanates from people like Mr. Stockman.

One of the things you mentioned, Mr. Dickinson, is what we ought to do is to compare what would have happened if we had used the straight price cut, as was the alternative to the diversion program.

What you would have seen if the figures had been as accurate as ours were, you would have seen an increase in taxpayer costs over the past year, a rather substantial increase in the taxpayer costs; a significant increase, if not substantial increase, in production; and then probably a fairly dramatic falloff of farmers, et cetera.

So, I think we ought to keep that in mind. And also, I'd like to point out, as you did, rightfully so, that the price to consumers has gone down. But I think it's an important thing to note that the price to consumers has gone down about 1 percent; the price to the farmers, the dairy farmers, has gone down about 8 percent—over the last 4 years.

So, I think people ought to focus more, if they want to focus on things, is why it didn't go down 8 percent to the consumer, rather than why the farmers ought to take more of a rap on this.

Very excellent statements, and I appreciate them.

Mr. **Coelho**. Mr. Lewis.

Mr. **Lewis**. I have no questions, Mr. Chairman.

Mr. **Coelho**. Pat.

Senator **Leahy**. No, Mr. Chairman.

Thank you.

Mr. **Coelho**. Thank you very much.

I appreciate the panel appearing today.

Mr. Patterson, you may begin.

STATEMENT OF LLOYD H. PATTERSON, PRESIDENT, CABOT FARMERS' COOPERATIVE CREAMERY CO., INC.

Mr. **Patterson**. Mr. Chairman and other distinguished members of this subcommittee, my name is Lloyd "Pat" Patterson.

Mr. Chairman and Mr. Lewis, I'm not going to waste this opportunity. I want to tell you, very sincerely, how much we think of Mr. Jeffords and Mr. Leahy. I think you probably know this, we show them, at the appropriate time in November, how much we do think of them.

Mr. **Coelho**. Keep doing that.

Mr. **Patterson**. My family and I operate a true family dairy farm in Danville, VT.

I also serve as president of Cabot Farmers' Cooperative Creamery and as president of Green Mountain Federation of Cooperatives.

I'd like to say today though that my views, my statements, may not truly represent the feelings of Cabot Farmers' Cooperative. We have an annual meeting coming up the April 24. And, Jim, we sincerely hope that you or one of your staff members will be present with us. And we will formulate a policy at that time. We will keep you informed as to Cabot's position.

Now, I've been introduced on several occasions as a successful dairyman. I'd like to visit with you just a moment about that if I may.

My wife and I purchased our farm 35 years ago without a penny in our pockets. Now, I want to tell you that with a lot of hard work, careful planning, and a lot of help from everybody, we've been able to maintain that position. [Laughter.]

But just barely.

Now, if success is measured by building a business that you're proud of, making a living, and paying your bills and really enjoying what you're doing, then maybe, just maybe, we have attained a moderate amount of success.

But if success is measured by thousands and thousands of dollars in a bank account somewhere—or even by owning a bank—I want to tell you that we've been a complete failure.

Why am I telling you all this?

I only want to point out that we have but a few actual cash reserves to carry us through troubled times. In my opinion, there are few cash reserves in the agricultural industry in the State of Vermont or, in fact, in the Nation as a whole.

We feel that we do have a considerable amount of equity in our farming operation, however, but it's hard to pay your bills with equity. By that, I mean it would be hard to drive a tractor down to the grain store and say, "Well, you can have the rear tires this month and the motor next month."

I read with great concern about our farmer friends in the West and Midwest losing their equity and, in fact, losing their farms. No prudent businessman would attempt to live on equity for any great length of time.

For these reasons, I believe that we need a farm program that will provide some long-term stability, both for the consumer and for the producer as well.

The Price Support Program has worked well for many years, and it has benefited all concerned. It obviously needs some adjusting, but to abolish it would be a complete disaster.

I sincerely believe that the administration's dairy program shows a callous disregard for our future food supplies forever, consumer food costs for farm families, and for the basic economy of all rural areas in this country. To me, their solution is a little bit like cutting your throat because you have a headache.

I want to emphasize to you that the people of Vermont are not asking for continued Government purchases at record levels and at record Government costs. We recognize our obligation to reduce the costs to the U.S. Government.

For all of these reasons, I want to ask you to seriously consider the proposal brought forth by the National Milk Producers Federation. I will not expound on the details, except to say that it does provide for continuation of the purchase program, contains a new dairy pricing index, a supply-demand adjuster, and standby authority for a milk diversion program.

I'd like to talk about that standby authority for just a moment if I may, and I'd like to tell you that maybe I don't feel as strongly about that as my written statement might suggest.

I do want to point out, however, that I'm not violently opposed to it. I do have some concerns on both sides of the aisle on that one, and I'd like to voice them to you if I may.

If, because of budget restraint, this is necessary, I'm all for it. I believe that the standby program would be the quickest and the best way to reduce Government costs in a quick fashion. It would be the best program that I know of.

If, however, it can be done over a period of time, I don't feel so strongly about the standby program.

I want to emphasize to you that I think that standby program should be exactly what the name says, a standby program that would take effect when a substantial adjustment in supply was absolutely necessary. I'd like to point out to you though that if farmers do finance this standby program, we'd need some sort of assurance that the floodgates would not open and allow more and more imports to come into our country to cause us more and more headaches.

Now, I personally could support standby authority for a diversion program, for a two-tier pricing system, or some other penalty incentive program that might be developed.

I really do fear going down the road, making more and more milk for a lower and lower price and seeing more and more farmers being forced to leave the farm life that they have learned to love.

I believe that the National Milk Program would drastically lower the cost to the Government CCC Purchase Program, while at the same time give a farmer the ability to control his own destiny.

In closing, I wish to thank you very sincerely for the opportunity to appear before you today, and I offer to you my help and my support, however small it may be.

Thank you very much.

[The prepared statement of Mr. Patterson appears at the conclusion of the hearing.]

Mr. Coelho. Thank you. I appreciate it very much. Mr. Davis.

STATEMENT OF WILLIAM D. DAVIS, GENERAL MANAGER AND CHIEF EXECUTIVE OFFICER, CABOT FARMERS' COOPERATIVE CREAMERY CO., INC.

Mr. Davis. If I had understood the political process a little better, I would have supplied some Vermont cheddar cheese on your table this morning.

Mr. Coelho. If you know how much I love cheese, you would have done that. [Laughter.]

Mr. Davis. But I have a mail-order catalog that I can submit in its place.

Mr. Coelho. Thank you.

[The catalog is held in the committee files.]

Mr. Davis. Mr. Chairman and other distinguished members of this subcommittee, my name is Bill Davis, and I am general manager and chief executive officer of the Cabot Farmers' Cooperative Creamery, which is 510-member co-op located in northeastern Vermont.

I am a native Vermonter and part-owner of a registered Jersey dairy herd located in Cabot, VT.

In anticipation of a great number of presentations today addressing the 1985 farm bill, I want to address a more immediate problem and that is the July 1 additional 50-cents-per-hundredweight drop in the support price for manufacturing milk.

I do want to point out that I support the testimony given today by our president, Pat Patterson.

As a Vermont-based cooperative, we function as a major balancing agent for the New England market. At the same time, we progressively market a full line of value-added products. We have adapted our product mix to minimize the effect of the peaks and valleys in the New England supply system.

We are unique in that we do not rely on the Federal Government to be a purchaser of our product.

With the support price reduction of what ended up being 6 cents per pound on cheddar cheese blocks that was enacted April 1, and an additional 5- or- 6-cents-per-pound reduction on the horizon for July 1, 1985, our customers are hesitant to buy in normal supplies of cheddar cheese. This hesitance is a direct result of the Federal decision to reduce the support price July 1.

Let me offer an example. During the first quarter of 1985, our commercial sales to customers who buy current cheese for aging was reduced by 480,000 pounds. This happened because of the guaranteed drop in the support price on April 1 and the knowledge that they can buy the product back at a later date at support prices plus 10 percent.

Since Cabot co-op was in the same position of reducing inventories, and our normal commercial customers were not buying, we had no choice but to pass this 480,000 pounds on to the Government. With the additional announced 5- or 6-cent price reductions to be effective July 1, 1985, not only will our commercial current cheese customers face additional pressures from—we will face additional pressures from our value-added customers who buy our aged product. This support price reduction directly affects the salability of both our current and aged products.

Again, let me illustrate our position with an example. In our business, we age between 4 and 7 million pounds of product, with the peak amount at the end of the flush period in the spring which permits us to do a lot of balancing in the fall tight-milk situation in New England.

The April 1, 1985, reduction of 6 cents per pound on our present inventory of 5.5 million pounds of cheese represents $330,000 if we had reduced our inventory level.

An additional 5- or 6-cents-per-pound reduction in July will definitely bring the buyers alive and force across-the-board pricing adjustments on our aged inventory.

Our company cannot stand a $660,000 reduction in inventory values. Accordingly, to protect against that, we will move as much product possible to the Government as long as Secretary Block continues with his plan to reduce the support price July 1.

We realize, as do many national cheese marketers, that this product can be brought back in at 10 percent over the support price.

I offer two proposals today: One, move the July 1 reduction in the support price to October 1, at which time the M-W price series will be above the support price, as seasonally happens every year. A reduction in the support price at this time will have a minimal impact on the market because the price will be dictated by supply and demand and not the Federal support price.

Two, increase the buy-back provision to 115 percent of the price support to make it less attractive for the private sector to use the Government to age their cheese.

In conclusion, the July 1 drop in supports will serve as a vehicle to increase the movement of cheddar cheese to the Government and serve no short-term effect in reducing supply of milk.

I want to thank you very much for the opportunity to speak here today.

[The prepared statement of Mr. Davis appears at the conclusion of the hearing.]

Mr. Coelho. Thank you, Mr. Davis.

I want to say that your testimony is very pertinent to something that we're concerned about—to this subcommittee.

We will hold some hearings very soon in regard to that very specific item. We're concerned about the fact that by the Government's action we're going to, in effect, make the dairy program look bad. So, it accomplishes what Stockman and others want by the mere fact that we have these dates the way they are.

So, we will hold some hearings immediately. I appreciate your testimony. It's very, very pertinent to what we're doing.

Second, I might point out to you that we are concerned, also, about what appears to be happening—is that the Secretary has reduced the price support by more than 50 cents, and we want to establish the record on that and determine the significance of that and whether or not we can convince them otherwise. But we'll go into that as well.

I appreciate both of your testimonies very much.

Mr. Davis. For the record, I would like to add that the whey formula that they put into that 6-cent drop does not affect us in the Northeast, because we are marketing our whey at an extreme loss.

Mr. Coelho. OK. Mr. Jeffords.

Mr. Jeffords. I want to thank you very much. That's very important testimony, from both of you. And especially when we have hearings in Washington, I hope you and your friends around the country will back you up in the sense of trying to postpone that price cut until October 1, when I think it would make a lot more sense.

And I share the chairman's concern that that is going to be used to indicate how much the surplus all of a sudden is increasing when it's not really an accurate portrayal of the situation.

Mr. Coelho. If my colleague will yield——

Mr. Jeffords. Yes.

Mr. Coelho [continuing]. It is, in effect, the marketplace working, but against us and for those who want to cut the program. It's not——

Mr. Jeffords. That's quite correct.

Pat, it's always good to listen to you. Your testimony reminded me of a hearing that I was at in Erie, PA, back in the crisis in

1975. And a farmer was fortunate enough to win the Pennsylvania lottery, and he won $50,000. And they asked him, "What are you going to do?"

And he said, "Oh, that's simple. I'm just going to keep on farming till it's all gone." [Laughter.]

Which I think is sort of what we're seeing happening now. It's unfortunate.

Mr. **COELHO**. Thank you very much.

Mr. Lewis.

Mr. **LEWIS**. No questions, Mr. Chairman.

I want to thank you, Senator Leahy, for your eloquent testimony.

Mr. **COELHO**. We'd like to welcome, from the great State of New York, our colleague, Mr. Martin.

We appreciate your traveling up here. Your district adjoins this great State, I understand.

Mr. **MARTIN**. Thank you very much, Mr. Coelho and Tom—and, Senator, it's good seeing you again—and my neighboring friend. We have an extremely long border here, beautiful Lake Champlain. We'd like to have you come back more often.

Sorry I was tardy, but that was the airline's problem.

Mr. **COELHO**. Thank you, Dave.

Mr. **JEFFORDS**. Let me make one comment that I think everyone should know.

I'd like to point out that those of us who live up in this area are noted for being taciturn and short on words at times, but able to accomplish a lot with a few words.

I want to say that David Martin here, at one very critical time, when we were considering the diversion program, we had to get something through by unanimous consent, and we had one Member who had been called by the administration to come down and scuttle that, to hasten the program up. And not only did Mr. Martin not have to say a word, but he used the most incredible stare that I have ever seen in my life.

And that Member that was standing there, thinking as to whether or not he would object to the unanimous consent, was stared right down into his seat.

And I want to thank you. You did more with that one stare to hasten the diversion program along than any of us did with our thousands of words, David. And I want to express publicly my appreciation for that great stare that you gave that evening.

Mr. **MARTIN**. As I remember, it was somewhat of an attempt to do a delay on a 50-cent increase in the milk tax.

Mr. **COELHO**. Thank you very much.

Mr. Leahy.

Senator **LEAHY**. Thank you, Mr. Chairman.

I am also delighted to see Dave Martin here. He's a good friend. And he and I and Jim sometimes caucus in the airplane coming up.

You'll notice that there's more sunshine apparently over on the other side of the lake than here, with the tan——

Mr. **MARTIN**. It's reflection on the lake——

Senator **LEAHY**. I see.

Mr. **MARTIN**. And you're up early in the morning.

Senator **Leahy**. Again, I want to extend—or note my appreciation to you and to Congressman Jeffords for the invitation to be here today.

I'm going to have to leave at this point. I hope I might be able to get back and join you later. But it means a great deal to me to be invited by the two of you.

And I want to compliment you and the rest of the panel, again, for holding these hearings. It's very, very important to us.

Mr. **Coelho**. Thank you.

Mr. Cabot, you may proceed.

STATEMENT OF ANDREW H. CABOT, DAIRY FARMER, WALPOLE, NH

Mr. **Cabot**. My wife helped me write this speech. It says, at the top: "Thank Jeffords and others for coming."

Mr. **Coelho**. OK. Go right ahead.

Mr. **Cabot**. All right.

My name is Andrew Cabot. We milk 250 cows on a dairy farm by the Connecticut River. This farm has been in my family 165 years. It's paid for. It was paid for until a couple of years ago.

I think I'm going to be in the minority in what I have to say. I've always been against quotas. I thought that they were un-American, believing that less Government control was the solution to keeping supply and demand in line.

But with the incredible surplus of milk that we have and the potential to produce even greater quantities through improved breeding, feeding, and biological growth hormones, we face the possibility of 30 percent more cows than needed to supply the demand.

In order to line up supply with demand, prices will be cut more, forcing many, many farmers out of business.

Is this the best solution to the problem of oversupply?

I suggest the answer to the oversupply problem is not in controlling the excess by price regulation, but rather a quota system.

Quotas are similar to shares and can be bought and sold on the open market for the present value.

The Federal Government will determine the amount of milk each farmer will produce, and each farmer will be guaranteed a fair price based on parity and other market factors.

On my farm, when the July 50-cent deduction is taken, I will add more cows in order to make up the difference in price. Many of my neighbors will do the same.

How is this controlling the supply problem?

I just would like to make a few points about the benefits of a quota.

It's a fair—the farmers will be guaranteed a fair market price. And I don't think that $10 is a fair market price, which is what the administration proposes. It will control the supply of milk. More farmers will be able to stay in business.

And I agree with the people who were here before. I think more farmers are better than few farmers. I think that's good for the country.

A quota would increase every farmer's equity. And I don't think there's a farmer here who wouldn't want that right about now.

It will not cost the taxpayers any additional money, unlike the present program. It would not add to the bureaucracy, because we'd just be exchanging the present one to regulate the new one.

I propose that the quota system require serious discussion and immediate action by the farmers and our Nation's leaders.

Thank you.

Mr. COELHO. Thank you, Mr. Cabot.

Mr. Stuart, you may proceed.

STATEMENT OF JAMES A. STUART, DAIRY FARMER, STRATHAM, NH

Mr. STUART. Mr. Chairman, members of the subcommittee, my name is Jim Stuart, and I operate, with my wife, in partnership with my two daughters and their husbands, a dairy farm in Stratham, in the county of Rockingham, NH, some couple of hundred miles from here, down on the seacoast.

And as I look at the cans of maple syrup, I realize I should have a lobster in each pocket. [Laughter.]

But my apologies.

Mr. COELHO. We'll take a raincheck on that thought.

Mr. STUART. Please come down to visit us.

We'd be happy to supply them.

I think that the first thing I would like to do is thank and congratulate the members of the subcommittee for the compromise Dairy Act of 1983. I think both the diversion program and the National Milk Promotion Board were very successful and wise steps on behalf of the dairy farmers and the Nation.

In assessing the effects of the diversion program, I'd just like to add the comment that—accomplished a lot for us. Had perhaps the rules been set down so that it encouraged a few more farmers to participate and all of those dollars that were collected in assessment were spent in diverting production, we'd be in a stronger position than we are now from it. And if fellow farmers in the business of producing feed grains had been receiving something other than disaster prices for their product, why we probably wouldn't have a surplus problem at all, because if the Agriculture Committee, Congress, and the administration ever succeeds in making a profit over those feed grains again, why I think the dairy farmers, many of whom are on the thin edge now, can't stand that.

We've had a drop in the milk-grain ratio, as you are well aware, during the past year. And this has encouraged more milk, while the diversion program has been discouraging it.

But certainly the promotion aspect of selling more product is a very constructive thing for our industry and the Nation as a whole.

I won't take very much time in going over what other people have already said. I endorse the position of the National Milk Producers Federation in general with respect to a dairy program in the future.

I have a couple of comments I would like to make for emphasis. One, spare us the delusion that a free market is a possibility for American dairy farmers or farmers in general, I think, our grain farmers, with the amount of subsidies that exist in the rest of the production areas of the world, with the high American dollar. And with the competition in this country that the working farmer suffers from, the, shall we say, tax law farmer—competition with those who have to finance their operation out of their income from the farm, a free market is not a realistic possibility.

The second thing I would like to observe is that within my lifetime American policy has been one, around the world, to encourage agrarian reform, to break up large landholdings and let those who are tilling the soil own the soil and have the responsibility for it. I think it's a sound principle. I think that American agriculture has come a long way based on that, and I think we should give serious consideration to the direction that we're heading today with respect to the medium-sized family farmer, the corporate operation, or the large—the trend looks very ironic, in view of what we've encouraged the rest of the world to do. We'd better pay some attention to what we're accomplishing here at home.

Thank you very much.

Mr. COELHO. Thank you, Mr. Stuart.

Next, Mr. Underhill.

STATEMENT OF LAWRENCE UNDERHILL, DAIRY FARMER, HAVERHILL, NH, ON BEHALF OF STEPHEN H. TAYLOR, COMMISSIONER OF AGRICULTURE, STATE OF NEW HAMPSHIRE

Mr. UNDERHILL. Chairman Jeffords, distinguished members of the subcommittee, I serve a dual purpose today. I am here on behalf of Stephen Taylor, our commissioner of agriculture for the State of New Hampshire. And I would like the opportunity to read a very short statement that he wishes to submit, and I would like to make two or three comments.

I am a dairy farmer and would like to adlib two or three comments of my own.

This is a letter to your subcommittee, Mr. Jeffords. It says,

> DEAR MEMBERS OF THE SUBCOMMITTEE: I commend you on your willingness to come to the New England region and hear from farmers and the dairy industry relative to the development of legislation that will determine the future direction of dairy production in the Northeast and the rest of the nation.
>
> There is widespread disagreement among producers and handlers in New Hampshire over the exact shape the dairy provisions of the 1985 farm bill should take, but I think it is fair and accurate to say that there is general accord on one basic principle: that the features of dairy legislation which have served farmers, processors and consumers reasonably well over the past 35 years need to be preserved in order to assure the economic health of dairy farms in our State.

Mr. COELHO. Would you pull that mike a little closer to you? The people in the back are having a hard time hearing.

Mr. UNDERHILL. Well, maybe it's good luck. Thank you for bringing it to my attention.

> I believe there is unity in New Hampshire in support of retaining the price support system to achieve orderly marketing and a minimal measure of stability to the pricing of milk produced for the commercial trade.
>
> Many factors have come to distort and disrupt the milk price suport program in the past few years, and these distortions and disruptions have caused many to blame the support program, when in fact the support program is forced to respond to numerous outside political and economic forces which in its present form it has little flexibility or authority to address.

I support new legislation to preserve the proven strength of the existing dairy support program and also to overcome its shortcomings, and I offer these suggestions:

One, create a new formula for establishing parity levels—one that is specific to the dairy industry and recognizes the impact of changing technology and genetic progress.

Two, establish a mechanism that adjusts support levels to changing supply-demand relationships in a timely manner.

Third, provide linkage between the level of Commodity Credit Corporation purchases of dairy products and the support price.

Development of an effective and reasonable national dairy production and marketing policy must also consider matters which aren't apt to be included in the drafting of the 1985 farm bill, and I urge the Subcommittee to play an active role in examining and shaping legislation in those areas, including:

One, deficit reduction, which is of paramount importance in restoring our agricultural trade capability, reducing interest rates and renewing our traditional competitive position globally. New Hampshire farmers recognize the need for significant change in many of the functions of the federal government to achieve substantial reduction of the deficit, but they do not feel agriculture should bear a greater share of the resultant pain than other sectors of the economy.

Two, tax policy, whereunder New Hampshire family farms presently are placed in direct competition with investor-farmers whose return from agricultural activities is derived from the federal tax code rather than production and sale of food and fiber. When tax code transfers accruing to agriculture exceed the taxes collected from agriculture, it is obvious public policy must change, in order to retain those who produce efficiently through hard work and innovation on the farm.

Third, trade negotiations, where many New Hampshire farmers fear dairy products import quotas will be used as bargaining chips to be bartered away in upcoming rounds of trade and tariff talks. Opening American markets to large quantities of European Community, New Zealand and other nations' dairy surpluses in return for concessions in other commodities will profoundly alter our dairy industry.

And he sums up with this paragraph:

I will sum up by posing what I think is the fundamental question in analysis of all national agricultural policy options, and that is: On whom do you wish to rely for our nation's food supply, American farmers or foreign farmers? The decisions the Congress and the Administration make in the next few months will largely answer that question.

This is signed by Stephen H. Taylor, Commissioner, New Hampshire Department of Agriculture.

Mr. **Coelho**. Thank you, Mr. Underhill. I appreciate it.

Mr. **Underhill**. The copy's for you, and if I still have a minute or two——

Mr. **Coelho**. You don't have—you have about—I'll give you 60 seconds.

Mr. **Underhill**. I think that the most important thing I see as a dairy farmer, now, is that we need a much more timely mechanism of buying the CCC purchases through price adjustments. In my opinion, these have been several years too late historically.

I think we need a $5 billion, 5-million-pound reserve, and I think this should be a trigger point. One of the factors that hasn't been involved, at least while I was present, that I think should be involved in this trigger mechanism, is, we should keep close tabs of the ratio of our heifers in relation to our milking herds.

Now, with some 44 heifers in relation to 100 cows, it's been predicted that 33 would keep our supply constant. These are a couple of additional items that I think we need to pay a lot of attention to.

I thank you, Mr. Jeffords and the subcommittee, for the chance to give this testimony. I do have copies of the commissioner's material.

Mr. **Coelho**. Thank you very much.

[The letter of Mr. Taylor appears at the conclusion of the hearing.]

Mr. Coelho. Mr. Jeffords.

Mr. Jeffords. Thank you, Mr. Chairman. I want to thank my neighbors for coming here and sharing with us your feelings on the Dairy Price Support Program. I want to say that I appeared with your Commissioner on Tuesday night at Dartmouth on foreign policy, and he did a very excellent and articulate job, along with our Commissioner, Paul Stone.

And please send my regards back to him. Thank you.

Mr. Coelho. Mr. Lewis.

Mr. Lewis. No questions.

Mr. Coelho. Mr. Martin.

Mr. Martin. Not at the present time, understanding that the chairman and ranking minority member want to do everything they can to keep this hearing on schedule. So I'll defer questions, but I might be writing you.

Mr. Coelho. Thank you.

I thank the panel very much. Bob Rumler, you may proceed.

STATEMENT OF ROBERT H. RUMLER, AGRIBUSINESS CONSULTANT, BRATTLEBORO, VT

Mr. Rumler. Thank you very much, Mr. Chairman and members of the subcommittee. I'd like to express my appreciation to you and to Congressman Jeffords and to the subcommittee for the invitation to testify today as a friend of the committee.

You have a copy of my full text, and I will brief it as we go along. Although I testify as an individual, I do so out of a background of more than 30 years as the chief executive officer and chairman of the world's largest dairy breeders' organization, which is well distributed in its membership all over the country, many of whom come from your constituency areas.

Also, as a member of the Agricultural Policy Advisory Committee on Multilateral Trade Negotiations and one of the few that served continuously on that trade panel for the Secretary of Agriculture and the USTR since 1975, and also as a former chairman of the committee dealing with the Foreign Agricultural Service and the cooperator group and so forth.

With that background, Mr. Chairman, let me get into the subject of dairy legislation and the 1985 farm bill through the international perspective. It's no secret that dairy was a big-chip item in the negotiating table during the Tokyo round of trade negotiations. It'll be an even bigger chip in any such negotiations in the future, and it's so recognized by both the USDA and the USTR, whether it be Ambassador Brock or whether it be our new Clayton Yeutter.

Far more important than generally realized as a critical cornerstone in our domestic dairy policy are the provisions of section 22 of the Agricultural Adjustment Act of 1933. Above all cost, the capabilities of these provisions must be retained.

Free access to our domestic dairy market, negotiated away in whole or in part for whatever reason and for whatever possible gain, would be disastrous to our domestic dairy industry. Extreme care must be exercised, in whatever legislation is enacted, that this does not happen, whether it be within the dairy title of the bill or an overly exuberant approach to the export title of the bill. In fact, the possibilities of it happening must be precluded.

Except for the international marketing of dairy cattle, the U.S. dairy industry has not been a factor in the rapid internationalization of American agriculture, and it's not going to be in the future, either. Not in the foreseeable future, not in this decade and possibly not in this century.

Except for that, we now find ourselves very clearly with the need in this particular dairy title of the farm bill as to what the positions must be, and they must be completely directed toward the domestic market.

It cannot and must not be forced into a program mold of other commodities such as wheat, feed grains, cotton, and rice, whatever else it may be whose future lies entirely and fundamentally in the development of the world markets for those particular products.

Milk and dairy products do not fit the mold of the high volume, export oriented commodities for a variety of unique and very special reasons. This means that dairy does not fit the target price/deficiency payment approach. Neither does it fit the approach of establishing support levels based on a percentage of historic price levels.

What then for the dairy title for the 1985 farm bill? Well, in June 1982 I was privileged to present testimony on dairy legislation to the same subcommittee in Washington. At that time I recommended a long-range program for dairy.

That long-range program, because it was long range, is just as valid today as it was then. Two fundamental points were involved. One was a nationwide mandatory check-off program for promotion, research, advertising and other matters of a similar nature.

Thanks to the effort of this subcommittee, your support, Mr. Chairman, and especially the efforts of Congressman Jeffords, we now have such legislation, and it behooves every dairyman, every dairyman of this Nation, to continue this fine program through a positive vote in the referendum which is coming up in August.

And I'm confident that that will take place. The second point, the long-range program that I presented at that time was solidly based on a dairy specific economic formula for the establishment of the level of dairy price supports.

Let me put this in a fuller context as a specific recommendation for the dairy title for the 1985 farm bill as it relates to the dairy price support program. First, you have to recognize one thing. That is that the national goal, or the role, of a national dairy price support program should be the establishment and the stabilization within the industry, and particularly the stabilization of the industry so far as the producer's level is concerned, or at the producer level.

It must be combined with consumer security for an adequate supply of high-quality milk and dairy products. Conversely, the role of this program, per se, should not be income enhancement for the dairy farmer.

Now, this brings us to three fundamentals that would be involved in the plan or program, and you've heard them before. Let me repeat them again.

One, to establish a support level that would be maintained as it is under the present program for the purchase of hard dairy products by the Commodity Credit Corporation.

Two, the basic level of support would be established by a dairy specific economic formula or index made up of the indexes of costs of inputs into milk production, balanced as to their respective relative importance percentagewise, for establishing the cost only of milk production. Not other things but the cost of milk production.

Third, provide a supply/demand adjuster or adjustment procedure to the level of support generated by the economic formula in two above. Preferably this adjustment would be operated by the Secretary of Agriculture within established parameters based on projected CCC purchase, set forth in the law. The consideration of support level adjustment should be made no less frequently than every 6 months.

Now, the characteristics of the dairy specific economic formula I'm going to leave to your reading so far as the testimony is concerned, as you have it in the printed copy. One thing I think is important. The support price should not be set above long-term equilibrium levels.

And I think, Professor Jacobson, when you held your hearing March 20, he put it very succinctly when he said, "Over the long run the support level should average below the longrun market clearing level by 5 to 10 percent."

He's talking about over a long period of time, and we're now talking about a long-range program, not an emergency program. And it's important to keep in mind that the present procedures for milk price support to the purchase of hard dairy products by CCC is well suited to the assuring of an adequate supply of milk, stabilizing milk prices, and providing a milk floor.

It is not suited to producer price enhancement or maintaining milk prices in excess of long-term supply and demand conditions. For producer price enhancement or income assurance, then, some type of supply management or quota system is necessary.

Now, I would like to take another moment if I may, Mr. Chairman, and suggest to you that——

Mr. COELHO. You have about 30 seconds, Bob.

Mr. RUMLER. OK.

I would like to suggest to you that this subcommittee has a unique opportunity, I think, to provide excellent leadership in establishing and taking ahold of the reins and establishing a long-range program. The industry is reasonably well unified, in my mind, on the three points that I made.

I hope that the program that you assured this group here that you're going to come up with, by your deadlines from Chairman de la Garza May 15, will be based on those things that the industry is unified on, and so that we can stay unified.

This to me is terribly important. The alternative, I think, for this subcommittee is to abdicate that opportunity for outstanding leadership and let things simmer through the summer, as they very well might, and we come up to mid-September, and we have nothing concrete, and that's entirely possible, I think.

It's not too farfetched. And so we then take on the expediency of saying, well, we just don't have it all nailed down, so our alternative is to freeze the price at $11.60, and I think, notwithstanding all that has been said, it's pretty realistic to say that the price July 1 is going to be $11.60.

I may be more pessimistic than my friend, the ranking minority member of the subcommittee in this particular respect, but I think that's likely to happen, and I think the industry, while it would prefer it not to happen, is at least prepared to have it happen.

So, then, the expediency for this subcommittee, or the House Committee on Agriculture, or as far as that is concerned of the Senate, if we can't get these things reconciled and let all these differences fester through the rest of the summer and the rest of this year, to come up and say, well, our only alternative in order to meet the deadline is to freeze the price, and I think that's nothing more than an abdication of responsible leadership.

And we'll find ourselves right back here again next year.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Rumler appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very, very much. Mr. Robert Howrigan.

STATEMENT OF W. ROBERT HOWRIGAN, DAIRY FARMER, EAST FAIRFIELD, VT

Mr. Howrigan. My name is Robert Howrigan, East Fairfield, VT. My life's effort, as well as those of my family, are invested in a Vermont dairy farm. Agriculture, let me remind you, is America's No. 1 industry, with many dependent upon it for its survival.

I believe the basic Agricultural Act of 1949 has certainly been successful from the consumer's as well as the producer's position. If our Federal Government doesn't carry an inventory of dairy products, who will? Let's learn from the gas lines recently, in the seventies.

Uncertainty is causing some of our present surplus, as some farmers try to gear up for a quota system, as has Canada. Personally, I'm against a quota system because it means more expense and bureaucracy, making it more difficult for our youth to get started and grow.

Our farmers' average age today is 50.5 years. I trust our dairy farmers will approve the 15-cent advertising referendum when it comes up. I would like to suggest we keep our present Dairy Support Program. When a region develops a surplus, have it trigger-effective.

So if we went over, say, 5 to 7 percent we will all take a cut for the amount of milk produced over the 7 percent. This would be effective, no expense to our Government, and each producer would share in his excess produced.

I wish to thank you for the opportunity to be heard, and I think there's a little fine-tuning to be done, but this is my basic belief. Thank you.

Mr. Coelho. Thank you very much, Mr. Howrigan.

Alex MacKinnon, please.

STATEMENT OF ALEXANDER A. MacKINNON, DAIRY FARMER, GOUVERNEUR, NY

Mr. MacKinnon. First let me thank you for coming up to the north country. Especially Congressman Martin, I appreciate all that he's done for farming and rural life in northern New York, which is where we're from, and certainly everyone else who is here this afternoon.

I'm a dairy farmer from Gouverneur, NY, which is located in St. Lawrence County, which is the largest if not second largest milk-producing county in New York State. On our 400-acre dairy farm we maintain 160 head of Holstein dairy cows and milk approximately 73.

I would first like to call to your attention the graphs located on page 3 in my prepared statement. The first graph I labeled "Blend Price." It shows that the blend price of milk paid in our area. The price actually paid to us is adjusted downward to compensate for the mileage between our farm and the plant buying our milk.

This graph covers all of 1983, 1984, and January and February 1985. Please note that the price paid in October 1984 exceeded the blend price of October 1983, and this trend has continued to date. The second graph, labeled "Production," shows milk produced in New York State for all of 1983 and 1984.

The source of this information is the New York Crop Reporting Service Report for March 1985. Please note that the production in April 1984 was less than that in April 1983, and that this trend has continued to date.

Now, how does all of this affect a difficult task? And it certainly is going to be a difficult task ahead for Congress in trying to piece together the dairy portion of the 1985 farm bill.

First, milk production in New York State was down from a year earlier, more than would have been expected from the diversion program. The diversion program was responsible for less than half of the actual total 1984 production drop in New York State.

This means that New York farmers are responding to the need to reduce supplies, even though the milk-to-grain ratio is favorable to the producer. And this condition generally means higher milk production.

Second, the price of milk is responding to shorter supplies by increasing to the 1983—above the 1983 levels, and this trend has continued into the first 2 months of 1985. This has happened even though the price support during the period was reduced by 50 cents.

Keeping this in mind, it would seem to me that the best plan for Congress to implement would be to gradually lower the support price at 50-cent increments, but no more than once annually. With a strong market in the New York area, adequate to short milk supplies and little or no dependence on Government purchases, support price reductions would be buffered by strong market conditions.

This should increase class I utilization and have minimal influence on blend prices. It would also seem that a gradual reduction in support prices would discourage people from attemping to get into the business and encourage those who are marginally profitable or losing money to get out.

This would help over several years to ease supplies without unduly hurting dairymen who are strong managers and maintain sound operations. It is unlikely that dairy farmers from around the country will be able to agree on any one plan for surplus reduction.

In the final analysis, Congress must decide. I would hope that the plan adopted would have a gradual reduction in support prices, which would be of lesser impact on dairymen in areas with strong markets and greater impact on those relying on Government purchases.

While this may seem unfair and perhaps politically unpleasant, there is no nice way of encouraging fewer farmers and less cows. We must also remember that the consumer will also be affected by what you decide. For example, if the greater New York-New Jersey metropolitan area cannot get adequate supplies of milk, the price in the store is bound to increase.

In February the market administrator for the Federal marketing order 2, which is the New York-New Jersey area, had to implement the milk call provision for the first time in the order's history, because New York City dealers could not obtain enough fluid milk to meet the demand.

The milk call provision of the order mandates that all New York State milk processors send a percentage of the milk to the New York City fluid market. Upstate milk processors were reluctant to transfer milk away from their manufactured products because of good markets and tight supplies.

In conclusion, I would urge Congress to adopt the plan that would:

One, gradually reduce the price support.

Two, maintain the strong Federal marketing order system presently utilized.

Three, avoid quota systems or other regulatory methods.

Four, encourage increased sales—and this is certainly perhaps the most important part—encourage increased sales through strong milk promotion activities.

Five, provide safeguards that would encourage more production should supplies fall short of demand.

Thank you very much.

[The prepared statement of Mr. MacKinnon appears at the conclusion of the hearing.]

Mr. **Coelho**. Thank you very much, Mr. MacKinnon.

Next, Mr. Dwayne Before.

STATEMENT OF DWAYNE A. BEFORE, DAIRY FARMER, TROY, VT

Mr. **Before**. Congressmen, I thank you for this opportunity to give testimony today. My name is Dwayne Before. I am from Troy, VT, where my wife and I operate and own our own dairy farm. As president of the Agri-Mark Young Cooperator Program, chairman of the National Milk Producers Federation National Milk Cooperator Program, I feel that I am representing young farmers across New England and the Nation.

I just have a brief statement that I feel is true for all young farmers. What we need is some stability, long term. Young farmers cannot be facing too much change because of the amount of debt necessary to start farming. Too drastic changes will eliminate not only poorly managed farms, but also those managed by good young farmers whose large debt doesn't come from overspending during the good years, or poor management, but from their large debt necessary to just begin farming.

We as young farmers don't expect to have farming as it was with a high price support system that was too high, and paid the farmer well even if there was overproduction. What I feel we do want is the stability to think that there is a chance that we will continue to farm years down the road.

If overproduction occurs then, then we should have a program in place to take care of it, understandably funded by the dairy industry, such as a diversion plan. Along with the promotion program, perhaps freezing the price of milk this fall.

This might show us some of the stability is coming. It would show us we are working toward this goal. And if our production does go down enough, the price could then in reaction to supply and demand reward us for controlling production.

In my opinion, it is important to have a gradual influx of young farmers in the dairy industry to assure our country of a sufficient supply of dairy foods in the future. We need this from the Government, some long-term stability that will give us as young farmers incentive to stick with our farms through these times for our benefit and the benefit of the consumers as well.

Thank you.

Mr. COELHO. Thank you very much.

State Senator Francis Howrigan.

Senator, you may proceed.

STATEMENT OF FRANCIS HOWRIGAN, SENATOR, VERMONT STATE SENATE

Mr. HOWRIGAN. Good afternoon, Congressman Jim and other gentlemen at the head table. I can't read the names from here. I want to thank you for coming. I want to thank you for the opportunity to say a few words. I do not profess to have all the answers, but maybe some of it will help you in making your decision.

I know you have a difficult decision to make, and there is no easy answer. If there were, everyone would have one. I am Francis Howrigan from Franklin County. I live in Fairfield. I am chairman of the Senate Agriculture Committee and a senator from that county.

We operate 9 farms with 500 milkers. I think I have a possible solution to the dairy surplus problem. It is palatable to the farmer and would cost the Government only a few pennies. We need a three-price structure.

One, I would increase class I price slightly, but taking into consideration in the makeup of parity fuel taxes, utilities, interest, farm machinery and labor, things you have to have but you have no control over.

For now, I would leave class II price unchanged, but III, the third price would apply to the present percent of surplus in the market. Here is how it would work. We'll take a hypothetical case of a farmer producing 2,000 pounds of milk a day, for simplicity's sake and the ease of percentage.

If there's a 10-percent surplus, that means 10 percent of 2,000 pounds is 200 pounds. Cut the price of those 200 pounds at least $5 a hundred, which would be $10 per day, and that would discourage increased production. It would not hurt a farmer as much, because he could plan.

A, he could draw you off a few cows nearly ready to go dry. B, feed a little less grain. C, cull more closely. D, sell a few milkers. E, he could feed a little more milk on the farm, veal or raising heifer calves. All this would affect the surplus, and it would affect only that 10 percent.

As you'll see, the farmer—it would not hurt his net cash-flow, but would discourage increased production. The present formula of taking 50 cents a hundred on those 2,000 pounds equals $10, same as that, but then if there's a second 50 cents, it's $20-per-day deduction. If a man trys to increase his cash-flow by making a few more pounds of milk—I'm tired of the American farmer being made the whipping boy of the country.

His crime: work too hard too long. Statistics say we are the most efficient segment of all industries, but we are paid less than our overpaid and underachieving coworkers in manufacturing industries.

The fact remains that it costs less to carry a full dinner pail with good and wholesome food than anywhere else in the world. In consideration of these facts, we hope you will play fair and not flood us with imports. Most dairymen do not want a handout, just a chance to compete on an even basis.

The Government in many instances talked or promoted the farmers to increase production to promote their cheap food programs. They're to be congratulated. It worked. They had to carry it on their stick, and everybody went out and worked a little harder and a little longer, maybe bought another piece of land or a larger tractor.

But now they have to pay. They should not desert us at this moment. I'm not pleading for the farmer. I'm not pleading for Vermont only, but for the good of the whole United States. The Government pats us on the head with one hand, holds us back with the other, then kicks us in the rear end for doing too little or too much.

It's no wonder the American farmer is confused.

I believe in advertising, and it works sometimes, but when it works I hope we won't—we'll continue to buy American. I hope I did not do my sons harm by giving them a dairy farm. The diversion plan is good, but it still promotes there's no control over the surplus.

It tends to promote a little more and a little more of the cheap food at our expense. And thank you very much for listening. Maybe part of it will be accepted.

Mr. **Coelho.** Thank you very much, senator, for your coming here today and being with us.

Any questions of this panel? Yes, Jim.

Mr. Jeffords. I just have some comments. First of all, senator, listening to you testify, it's no wonder that you're reelected overwhelmingly whenever you run, and I certainly look forward to working with you as chairman of the State Senate Agriculture Committee. It's a very important job.

I've always had a good working relationship with you and of course all the Howrigan brothers too, and I can assure you that we will be looking at your plan and as we go into the problems we have of making up a dairy program, I would point out that in Wisconsin, as I remember, we had 15 witnesses and 19 plans.

Today we have 55 witnesses. If we keep that same ratio we're going to have about 70 plans, so I hope that Vermont witnesses in New England will do a little bit better than that ratio.

It's through those kind of plans, that—MacKinnon, you have another one also. Bob Rumler, I would like to again commend you for your testimony. I think you have pointed out that the trade talks are going to be incredibly important to the dairy industry, and I think everyone should be aware of that.

Yesterday we had a rather esoteric discussion, more esoteric on your part than mine, I'm sure, but about the impact on section 22 of the diversion program and increased imports, and I don't know whether you've had that in your testimony, but if you didn't I'd appreciate it if you could—not now, because of time limitations, but in writing articulate what you perceive may happen with respect to that and submit it for the record if you can.

Thank you very much. Thank you, Mr. Chairman.

Mr. Coelho. Mr. Martin.

Mr. Martin. Just one brief point. I think it's appropriate at this time to thank the chairman, the ranking minority member and Congresman Lewis for all the time that they've spent on these hearings throughout the country. It takes a lot of their time and a lot of effort on their part.

Mr. MacKinnon, you're from Gouverneur, at the southwestern end of St. Lawrence County. It's a 3½- to 4-hour haul over here. And for those people the other side, still in my district, Frank Hortens and George Wortley and Stan Lundine, I would hope, Mr. Chairman—again, I understand the time and I know we're working on it, try to have some hearings over there so we can get the testimony.

We just thank God for good weather.

Mr. Coelho. Mr. Martin, we're committed to hold a hearing in New York. We've had trouble getting a hearing date, but we're committed to do it and we'll be happy to do it.

Mr. Jeffords. One more comment, if I may, Mr. Chairman, on Dwayne's testimony.

Mr. Coelho. Sure.

Mr. Jeffords. I want to say that it's good to have you here to emphasize the problems of young farmers. I think that we would really be doing a disservice to the country if we do not consider in the farm bill the problems of young farmers who have had to put high debt loads on just to get into farming, with a recognition of the high average age of the farmers in this country that if we do not do something to recognize that factor, at some point in the not too distant future, a decade or so, we're going to have a very sharp dropoff in farmers and some real shortages, especially in the dairy industry. And I appreciate your bringing that to our attention.

Mr. **Martin**. One point on that, Mr. Chairman, if I may. I think we have to be extremely careful in doing exactly what Congressman Jeffords suggested that we don't create a situation of increasing capital costs and getting into this mess.

Mr. **Coelho**. Thank you very much. I appreciate that, Bob.

Next will be, Mr. Yandou.

STATEMENT OF ISADORE YANDOU, DAIRY FARMER, SWANTON, VT

Mr. **Yandou**. Mr. Chairman, Representative Jeffords, Representative Lewis, it is a privilege to appear before you to offer testimony. Jim Jeffords, we in Vermont are pleased that you are in a position to assist the dairy industry, and we thank you for your support and assistance.

We are pleased that these other Representatives have joined you in Vermont today. I own and operate a dairy farm in Swanton, VT, and I've been farming for 45 years. I have witnessed many changes in the dairy industry over those years.

I have sons and daughters who are also farming in this State. I presently serve as president of the St. Alban's Cooperative, and am the vice president of the Green Mountain Federation, which represents over 1,400 dairy farmers in Vermont and Massachusetts.

Over the years the industry has changed, and some of those changes have caused farmers to exit the business. We are now facing changes in the industry, and some of those proposed changes concern many in the dairy industry.

As a person who is concerned about the future of the dairy industry, I desire a program which will provide some stability and a long-term signal to farmers. My cooperative does not view the administration's proposal as such a signal, and certainly it does not view the proposal to be in the best interest of the consumers or farmers.

Their so-called market-oriented dairy proposal does not recognize the capital entry requirements of farmers, the potential consequences to consumers, and the threat to the infrastructure of our and other rural States. I do not want to convey the impression that we support a program which allows continued high levels of Government purchases.

My cooperative has assessed many of the programs which have been offered as solutions to our present problem. We believe that the dairy industry in the United States should be united with one—under one plan. That means that any plan should not be so regional that it divides the dairy industry.

The members of the National Milk Producers Federation, of which my cooperative is a member, agree on three points: continuation of the present price support program, adoption of a new parity or cost-of-production formula, and use of a supply-demand adjuster.

My cooperative accepts those positions and asks that you incorporate those items in the dairy portion of the 1985 farm bill.

Thank you for this opportunity to appear before you.

Mr. Coelho. Thank you very much. I appreciate your being here. Mr. Wadsworth.

STATEMENT OF ADRIAN E. WADSWORTH, DAIRY FARMER, NORTH TURNER, ME

Mr. Wadsworth. I've attempted to shorten my text. I've provided it to you in its entirety, and I'll do my best to go through in the interests of time.

Mr. Coelho. It'll be included in the record as presented, and you have 5 minutes.

Mr. Wadsworth. Thank you.

I'm Adrian Wadsworth. I'm a dairy farmer, and also I'm a director-at-large in Agri-Mark, Inc., a milk cooperative in this region. My wife and I farm as partners in a dairy operation in North Turner, ME. We have approximately 170 milking cows and about as many replacements.

We farm about 450 acres. It's been a long, gradual process to get where we are. We started out 12 years ago with little but a dream, and to date we've managed to buy a farm. All that remains is to pay for it.

Up until a few years ago, it was a common story for young people to get started in farming, and with hard work succeed. This was made possible by the relative stability of the dairy industry, and that was provided by the Federal support program.

But with the large capital demands of dairy farming today, it is necessary to have the stability in order to gain financing. There's no way we could repeat what we have done with the situation as it is today. Perhaps the saddest part of all this is that this is occurring in the richest nation on Earth, a country where 2 percent of the population provides for the needs of the other 98 percent, and in addition provides this country with a large percentage of its exports.

According to USDA figures, there are only about 900,000 commercial farms left. Yesterday I heard a figure from the American Farm Bureau that we are currently losing 280 farms a day, and they expect that to continue for the rest of this year.

As a citizen, this is a sobering thought, for in actuality the main source of this Nation's food and fiber comes from a frightfully small base. It was my belief that when Federal food policy was written after World War II, it was written for the consumer—not just for the farmer. There are many examples. The School Lunch Program came about because of the large number of young men made 4-F during World War II for reasons caused by malnutrition. I certainly don't wish to debate the right or wrong of these policies. I only point out that many times so-called farm programs have been really social programs.

I understand that last year the average family, farm family, in this country expended only about 15 percent of their disposable income to purchase food. I believe that this is the lowest figure in recent history. We eat for less than any other nation on Earth.

However, maybe we should include our subsidies when computing our food dollar expenditures. Perhaps then we would have a clearer picture of the true cost of food in this Nation. I believe it would still be a bargain.

If the administration were to have its way, then within a few years the public will have the advantage of paying for the cost of agricultural subsidies at the grocery store instead of through their tax bill. The cost of research, conservation, land improvement, and the maintenance of adequate food supplies must be paid for by someone.

It stands to reason that eventually these costs will be passed on to the consumer by a market-oriented agriculture. It will be interesting to see the reactions of consumers. Probably upper-income people would not complain too much.

But those in the lower income brackets and those on fixed incomes, who pay little or no taxes now, will shoulder the brunt of the burden. Maybe then farm policy will be put in the proper light. The people of this country expect adequate food.

In order to achieve that, there must be at times an oversupply. If the Government wishes to see the people fed, then it must enact farm policies that accomplish this at the least cost to the taxpayer.

I encourage the continuation of marketing orders and support programs for dairy. I urge the adoption of a revised dairy parity formula specific for dairy, complete with built-in adjusters for cost of production, along the lines of that proposed by the National Milk Producers Federation.

In order to ensure that we do not repeat the situation of the past few years, I would urge the inclusion of supply-demand adjusters that would function normally in response to supply and demand. Personally, I also would be in favor of a standby program, such as the recently ended diversion program funded by dairymen, that would automatically kick in if production passed some preset figure.

As a young farmer, highly leveraged, I can only stand so much. If under present conditions the support price of milk was to drop much below $11, the future of my farm would be questionable. Indeed, the wrong signals from Washington could dry up credit so that there would be no option but to sell at distressed prices.

In planning policy, this country must deal not just with present problems, but also must look to the future. Who will be raising this Nation's food and fiber in 25 years? How do we attract young people back to the farm? Certainly not with today's scenario.

In closing, I would like to mention some other things that may be as important to us as a fair farm bill. I urge you to pass a budget this year and put an end to continuing resolutions. Please examine tax policy, especially shelters and their abuse. Investors have done much damage to certain sectors of agriculture. Last, be wary of the administration's move to curtail certain agricultural agencies and their functions. It is fine to want to make agriculture more market-oriented. However, civilization is based on the top 6 inches of soil. Society has a stake in this Nation's agricultural land base, its preservation and improvement. We should not be so shortsighted as to abandon involvement in this, our most important natural resource.

I thank you for allowing me to appear before you today and present this testimony.

[The prepared statement of Mr. Wadsworth appears at the conclusion of the hearing.]

Mr. Witcomb.

STATEMENT OF WALTER E. WHITCOMB, DAIRY FARMER, BELFAST, ME

Mr. WHITCOMB. Gentlemen, good afternoon.

I'm Walter E. Whitcomb, a member of a family that owns and operates a 110-cow Jersey farm near Belfast, ME. We sell to a small independent co-op.

I appreciate the opportunity today to contribute my observations to the confusion surrounding the dairy policy.

We dairymen are experiencing diametrically opposite and conflicting signals in the milk industry. We are told the Nation must have less milk, and yet we're helping farmers so they will not go out of business.

We are reportedly not making enough money to make a living, but apparently making too much money to discourage people from entering.

Some people are paid not to produce milk; while in our county, six different milk-processing firms crisscross the county, and some of these are actively seeking more milk.

I, for one, and other dairymen around us seem to be both pessimistic and optimistic at the same time.

Our PCA banker tells us that the vast majority of his 125 dairy farm accounts are financially solvent. Yet, he knows his farmers are discouraged over the constantly falling prices.

I have condensed to save time, in the spoken statement.

Flying in the face of hard times and price reductions, we're watching a strange phenomenon in our immediate area and somewhat throughout portions of our State. New dairy farms are starting, believe it or not. Smaller farms are growing, despite the predictions of doomsday.

Our extension dairy specialist came to me from the great State of Vermont a few years ago, amid forecasts that Maine dairy farms, then numbering 1,200, would only be 500 in number in 1985. Maine today still has approximately 1,000 dairy farms, and that specialist still has a job.

On our farm, we're adjusting to the times by using our resources more skillfully. Homegrown forages are becoming more valuable in our farm feeding plan.

A funny thing happened to many of us as we were trying to save money by feeding less imported grain—we've cut the amount of feed grains without hurting milk production. Several people trying to satisfy the diversion requirements by feeding less grain found out it didn't work. Our homegrown forages are better than we thought.

Economic stress has forced us to be more efficient and reduced the cost of purchase grains and made a permanent improvement in the industry. Years of extension workshops were never able to wean us away from dependence on grain, yet an economic incentive accomplished that job very quickly on our farm.

Condensing a little bit more, our banker says the concentration of dairying to larger and more efficient operations is inevitable from his perspective, as he compares cash-flow, investment per cow, and ability for capital outlay in larger versus smaller units.

Yet, in contrast, I'd like to cite a nearby dairyman who took a long, hard look at the facts and went another way, as he and his sons made decisions when they were preparing to enter the business—or preparing for his son to enter.

They could have followed the constant encouragement to get bigger and more in debt, like most of us did. But instead, they diversified. These farmers took declining consumption, increasing milk supplies, high grain prices, and other factors into account, and they chose to stay the same size and use the land for something else—for a cash crop.

Most of us dairymen, individually, do not anticipate in that manner. We chose to react.

Given the alternative of low prices, most of us follow one of two ways. We either get out of business, or we grow larger, more efficient, and produce more milk.

No matter what the Government program, it must remember that the thing we do react to is price.

On our farm, like most others, even though our cows produce twice as much milk as a few years ago, we're not prepared to reduce the herd size by one-half to maintain the same milk flow. We are, however, instantly ready to blame every other region of the country for overproduction. We do hope they find success in another occupation.

Higher grain and beef prices would encourage those folks to do something else we'd like to think.

There are encouraging signs in our area. More farmers are planning land improvements and soil conservation work than last year. Farmers about to go out of business don't invest in their land. In fact, our farmer accounting summary shows that nearly 50 percent of the farms, believe it or not, on that accounting system—farms of our size—were better off last year than the year before.

An optimistic outlook is tempered with the realization that some young, capable dairymen face financial ruin not entirely of their own making.

We're under no illusions. All dairymen have been affected to some extent by the reduction in support price. In contrast, in our particular area, the diversion has had limited impact. Only a couple of farmers who are going out of business anyway use the program.

In summary, I have to recall the words of a nearby dairyman who calls the weeding process necessary. While he admits that times are tough for the young farmer with a high debt load, he remembers himself starting as a dairyman.

Again, the times are different, but the times were tough then. He started with two cows, an off-the-farm job, selling milk for $2 a hundredweight and buying grain for $2 a hundredweight.

There have been tough times before.

Government programs must look beyond the many conflicting interests for a long-term perspective. That, I think, we can all agree on.

Programs aimed at satisfying the demands of everyone could make dairying more difficult in the future.

Yes, it's a challenge to survive in the dairy industry. It has been before. And I think it will be a challenge in the future.

Thank you.

[The prepared statement of Mr. Whitcomb appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Mr. Whitcomb, for an excellent statement.

Mr. Carter.

STATEMENT OF TIMOTHY A. CARTER, DAIRY FARMER, BETHEL, ME

Mr. CARTER. About as challenging as staying in the dairy business is to take somebody as verbose as me and tell me I've got 5 minutes to speak.

But I will go as fast and as well as I can.

Mr. COELHO. You will do it in 5 minutes, I guarantee you.

Mr. CARTER. Or I will be done. OK.

My name is Timothy Carter. I am a dairy farmer from Bethel, ME. I am the sixth generation on my farm, and I have a son who is only 16 but is very interested in entering business with me as soon as he is out of school.

I would like to open with a few points.

I did believe in the Dairy Diversion Program when it was trying to be passed. And I believed in it and I participated in it. I think it was an excellent program, and it worked. I'm very disappointed that it has not received support, even from some of the people that didn't support it before, because it worked. It saved the taxpayers $1 to $1.5 billion, if you consider that half of the extra sales were due to the advertising. I think it worked because it was a supply management program paid by the whole industry. It was not a price-enhancement program; only by eliminating surplus did it help price. It was not a program where somebody got something for nothing. If you went on diversion, you soon realized that when you give your capacity to produce, it costs you money—in ways you didn't realize. But it did help me.

I used to joke and say that the Government didn't follow along with this program because it worked. I thought it was a joke.

Then I talked to a friend about the PIK Program—who is an expert in marketing—and realized it might not be a joke. He said the PIK Program was sold as being a low-cost program. Initially, the PIK Program is a very high-cost program. It added a tremendous amount of money to the farm program over the first 4 years. Unfortunately, it wasn't followed through with. After the first year, it was dropped; and the farmers were almost encouraged to go back to fence-row-to-fence-row planting of grains.

This completely negated the fact that by eliminating the surplus, if you continue with the PIK Program, the program would cost less because the price—the target price and the actual price would go together. It would cost the consumers more money, but it would make the farmers money, they would participate in it. And as far as the Government cost of the program, it would be less. Abandoned after the first year at a lost of cost, but no benefit, either intentionally or unintentionally. But maybe we've been had.

I don't think the farm programs have benefited. I think the Government and the farmers that have farmed in cooperation since, I think, probably the Land Grant Act, when it established the land grant colleges and the Extension Service and things like that, have done a great job.

The American consumer eats for less money than any other consumer in the world. I sincerely believe if you did add in the Government cost of the farm programs, it would still be the cheapest food in the world. This helps everybody, it gives consumers money to spend on other things. I think you could say that actually it's a consumer subsidy as much as a farm subsidy program.

I think it's too bad to blame the current problems in agriculture entirely on the farm programs. Certainly the international system of economics, the high value of the dollar in the foreign markets, the tax system that allows large amounts of moneys—of dollars to be written off in farms, where people can farm the Tax Code, rather than the farmers who do not care whether they make a profit or not, has really hurt the hog industry in the Midwest. I think this is something we definitely need to straighten out, just as much as the farm program. Before you can change the farm program, I think it's a shame that 300 of the 500 leading corporations in this country have not paid taxes in the last 2 or 3 years. And I think that has an effect on the farmer.

I personally would be willing to give up tax benefits such as investment credit and long-term investment if it would help balance the budget, which is another problem that's hurting the farmers, and would eliminate tax shelters in agriculture.

I've asked some organizations to do a study. I don't have the time, money, and ability to do that.

I would like to offer my support to the National Milk Producers Federation proposal. That proposal was developed by the people who make their livelihood in the dairy business, both as the economists that work for our dairy cooperatives and the farmers. They work with the dairy business, they know the dairy business, and they have to survive with the dairy business. And I think that they are probably the best judge of what we would need.

I think doing away with, definitely, the market orders would be a catastrophe. The dairy cooperatives and the marketing structure we have now has grown with these things. You would put us awash.

Going to the President's—at this present time, the President's market-orientated system, would be like feeding sheep to wolves.

There are very—there is a large number—very few farmers in the country, but a large number of farmers compared to the people that we buy from and sell to.

We are not capable of competing with industry, particularly with the tax shelters and things. I think that with this, if this was done, the family farms would disappear. And after the family farms disappeared, the rural communities would disappear, and the whole infrastructure of America would break down.

In conclusion, I would like to say that in the mid-1920's President Calvin Coolidge said something to the effect the American farmer has always been poor, he will always be poor, there is no sense in the Government trying to help him.

This was followed, in 1929, with the Great Depression.

In 1985, President Ronald Reagan said something to the effect that only 4 percent of the farmers are in trouble, the farmers in this country don't need any more help from the Government.

Hopefully we have learned from history that agriculture is the real basis of our economy in our country. Thank you for your time.

Mr. Coelho. Thank you, Mr. Carter. Mr. Dow, did you want to make a statement?

STATEMENT OF RYLE DOW, MANAGER, ST. ALBANS COOPERATIVE CREAMERY, INC.

Mr. Dow. We want to continue the statement from the St. Albans Cooperative Creamery.

Mr. Chairman, Congressman, and friends of dairy farmers.

My name is Ryle Dow, manager of St. Albans Cooperative Creamery, which is owned by 500 dairy farmers in northwestern Vermont.

We are going to support the National Milk Federation position, not because we believe it's the best program for St. Albans Co-op, but rather we believe unity is the best road to follow.

The federation's program is very complicated. One wonders if it was designed to prove how intelligent we are to perpetuate the economists in our society. It's too complicated to explain to the average dairy farmer or manager.

Those of us who are in a position that may have to try merely mumble to our members, it's just too complicated for you to understand. If you're an intelligent manager, you have an economist on the program who then proceeds to prove how right you were.

This is the failure of all these programs. The grassroots is left out. The average dairy farmer, who should be our best salesman, can't sell something he doesn't understand.

We believe the federation's program is workable, and we believe it addresses this present overproduction as well as potential shortages in the future.

We believe it correctly updates the base period, which is more in tune with today's agriculture.

We believe that the cost of production has to be considered.

We believe it's necessary to have a supply-demand adjuster.

I'm sure you people didn't come here from Washington to hear the federation position, or AMPI or DI, or Mid-Am. They all have full-time lobbyists. And if you haven't heard their story yet, they have the wrong lobbyist in Washington.

I told you earlier that I speak for St. Albans Co-op and I'm a director of the National Milk Federation. The federation's directors are seated alphabetically, so, I sat next to San Joaquin Valley's cooperative—Sam Wonkeen—from California. At our 1984 fall meeting I asked the gentleman from California if they were trying to bankrupt the U.S. Government with overproduction. I told him I thought they were the only region in the country that wasn't responding to what we, in Vermont, thought was a crisis in the dairy industry. These people from California are very eloquent spokesmen and very convincing. There is living proof of this in the White House.

However, the fact remains that the Western region in the United States went contrary to the rest of the Nation in milk production.

We would like to offer a simple solution to be added to the federation's plan. If the federation plan works as well as it is designed, this solution will never come into play, because the federation plan will make the correction before this solution comes into play. But, just in case the federation plan doesn't work as well as projected, this will come into play.

It's a mandatory diversion plan. If the Secretary of Agriculture believes that the Commodity Credit Corporation will have to purchase 8 billion pounds of milk equivalent through the support price, he mandates a 2-percent reduction nationwide. This will be approximately 2.7 to 2.8 billion pounds of milk.

Our average production at Albans Co-op is 800,000 pounds of milk per farm per year. This amounts to 16,000 pounds per farm or one good Holstein or two Jerseys.

The farmer can feed this to his calves, hogs, or hens—we don't care—or he can sell a cow. This won't make or break any dairy farmer. This will leave this great production base that dairy farmers have built up, in place.

It means that the farmers will be paying for their surplus through lost production and not the taxpayer. It means that Congress won't have to increase the deficit by budgeting more money for dairy supports.

The last diversion program tarnished the image of diversion by making millionaires out of a few large farmers. This will eliminate that problem. This will help the Southeast, as they will suffer only a 2-percent drop, whereas in the last diversion, their percentage of drop was considerably higher than this.

This won't hurt the Western farmer. As our good friends from San Joaquin have already told me, they were not responsible for increasing production.

Mr. COELHO. You have about 30 seconds.

Mr. DOW. One kicker to this mandatory diversion. If any one region of the country increases production more than 3 percent above the average of the balance of the Nation, then that region will suffer double the penalty in the diversion. This diversion plan will reassure the dairy farmers that the feast-or-famine days are over. This will add stability to the program so that the farmers can stay in business. This will guarantee an ample and nutritionally bargain-priced product for the consumer.

I won't go into the balance of this. But I'd like to say that this July cut, that's now on the books here, is going to be another disaster for the dairy industry if it's proposed and if it's not delayed until the fall.

[The prepared statement of Mr. Dow appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much, Mr. Dow, I appreciate your comments.

Mr. Jeffords.

Mr. **Jeffords**. Ryle, I understand that you may have some figures that would help us on that last assertion, and we'd appreciate it if we could be provided with those for the record at some point.

Mr. Dow. Yes; I did pencil these out for you, Jim.

We've been to the bank quite a few times lately, and everytime I come away we're having much difficulty as to what interest they tell us and how it's reconciled, as to what their statements are.

I realize now where these bankers are going to school. They've been going to the USDA, because—same type of arithmetic that just comes down—these figures.

The former price on powder was 91 cents, and it was reduced to 84¾—6¼ cents.

I'm using USDA figures.

I'm going to use the USDA yields on this. According to their yield figures, not mine, we can get 8.13 pounds of powder out of that. If you extend that by 8¼, this gives you approximately 51 cents.

At the same time, they took the price of butter from 1.46 to 1.43—forget the quarter—that's a 3-cent drop.

Again, according to the USDA figures, we can get 4.375 pounds of butter—if you can extend that times 3 cents, that's 13 cents.

You add the two together——

Mr. **Jeffords**. Ryle, why don't you prepare that and submit it to me for the record.

Mr. Dow. Yes, I'll do that. OK.

Mr. **Jeffords**. I'd appreciate that very much.

I want to say that my brother is a tree farmer in Maine, so I'm a little bit familiar with the Maine situation. In fact, I held a hearing up there not too long ago with Olympia Snowe, who is always very interested in that. And I do appreciate the length of time it took for you to come down here and to share with us some very excellent testimony.

Mr. Wadsworth, you noted the soil conservation problems that we were having in this country. And I agree with you, that we can't ignore those in the farm bill.

You mentioned the 6-inch average topsoil we have in this country now. We should remind ourselves that the average topsoil depth was 36 inches when our forefathers came here 200 years ago. And at that rate of degeneration, we're not going to have much left for our children and grandchildren later on.

So, I deeply appreciate your testimony.

I think you pointed out another thing which is interesting is that the diversion program proved to be a good learning program for the farmers that participated—and especially in feeding and things.

So, thank you very much for your attendance here.

Mr. **Coelho**. Mr. Lewis.

Mr. **Lewis**. Thank you, Mr. Chairman.

I want to congratulate all of you on the excellent testimony, especially Mr. Wadsworth.

I think for the young farmer—and, Mr. Wadsworth, I've listened to probably several hundred hours of testimony the past few months about our farming problems, particularly in the area of dairy, but I have heard few comments about young farmers. I think your testimony was outstanding.

Thank you.

Mr. **Coelho**. Mr. Martin.

Mr. **Martin**. I salute everybody in their testimony.

Just one question.

Mr. Whitcomb, that 110-cow farm you're talking about, is it 110 milkers? Or does that include your replacements?

Mr. **Whitcomb**. We have—replacements.

Mr. **Martin**. Roughly 110 milkers, I see.

Thank you.

Mr. **Coelho**. I want to thank the panel as well.

I appreciate you coming down from Maine. I happen to love your State. I used to go hunting there every Thanksgiving for several years and have very fond memories.

Thank you very, very much.

The next panel is from Massachusetts, and we have moved them ahead of a previous panel that we had announced.

Mr. Devine, you may start, please.

STATEMENT OF JOHN E. DEVINE, JR., PRESIDENT, MASSACHUSETTS COOPERATIVE MILK PRODUCERS FEDERATION

Mr. **Devine**. Thank you, Mr. Chairman and members of the subcommittee.

I am president of the Massachusetts Milk Federation, and we're a part of the Green Mountain Co-op.

We'd like to adopt Jim Jeffords and Pat Leahy because they import a lot of milk into our State.

We farm 150 acres in the western part of Massachusetts. And I have three sons that are in business with me.

In Massachusetts, there are developers that would like to cover the State with blacktop. So, we're very interested in what comes out of this farm bill.

There are a lot of young farmers that are interested in this.

We hope to increase our cash-flow on the farm—or my sons do—with computers and large tractors and more production.

So, we hope that we can do that practically.

And I'll introduce Mr. Nourse, who will explain some of the workings of our co-op, and Mr. Kelley, who is from the government in Boston.

Mr. **Coelho**. Mr. Nourse, you may go ahead.

STATEMENT OF ARTHUR L. NOURSE, GENERAL MANAGER, MASSACHUSETTS COOPERATIVE MILK PRODUCERS FEDERATION

Mr. **Nourse**. I'm Arthur Nourse, of the Massachusetts Cooperative Milk Producers Federation, as its general manager.

A little preface on that is I started in the dairy business myself before any of these programs were in effect. You might call it the marketing approach to dairying. And I'll tell you it was an awfully hard business to get started in.

Finally, the marketing orders came along, and then a little more substantial business was incorporated with a cost index—what it cost to produce the milk.

Well, we've come through a long series of programs. And the program, I feel, was very successful—was successful around 30-odd years--and I'd like to have that implemented, with some variations.

I would like to propose that the support price system be based on a cost of production, costs of labor on the farm, grain, feed costs, tax and interest charges should be blended into a formula that would serve as a floor on a regional basis.

Since regional costs vary, it would seem logical that the factors be taken into consideration. Costs in the Northeast are higher. But because of their newness to the market, transportation costs would be lower to partly compensate for the higher production costs.

A supply-to-management adjustment clause would help to regulate the level of production that would benefit the different regions of the country.

An automatic price mover could be built into this program to keep production within a reasonable range and allowing a quality product for the market.

I'd like to apologize for the shortness of our program, because we were unaware that we would appear on this, except for a couple of days ago, when we didn't have the input necessary to—but we'd like to—we're from Massachusetts and, as far as I know, the only people who will be on the panel today. So, we'd like to express concern for our Massachusetts markets. And as I say, we produce only about 10 percent of the milk that is necessary for Massachusetts, so we need the support of the Vermont producers. That's why we're part of Green Mountain; we need that support for the good product that they ship into our Massachusetts markets.

Mr. **Coelho**. Thank you, Mr. Nourse.

We also need the support of the Massachusetts delegation.

Hopefully you people will help us out on that on the House floor. Mr. Kelley.

Mr. **Nourse**. We will twist all the arms we can.

Mr. **Coelho**. Twist both, every time you get a chance.

Mr. Kelley.

STATEMENT OF JOHN B. KELLEY, CHIEF, BUREAU OF MILK MARKETING, MASSACHUSETTS DEPARTMENT OF FOOD AND AGRICULTURE

Mr. **Kelley**. Mr. Chairman, distinguished members of the subcommittee, I am John Kelley, chief of the bureau of milk marketing of the Massachusetts Department of Food and Agriculture.

Massachusetts is one of the most urban of our States. In fact, the 1980 census concludes that no area of the State can still be considered rural.

Support of agriculture on the part of the people of Massachusetts was shown in referendum which established chapter 61(a), which allows agriculture land to be taxed on a use, rather than a value, basis. Property taxes on agricultural land under 61(a) are now below the national average.

The Commonwealth of Massachusetts has set aside $40 million for a program to purchase development rights on that part of the agriculture resource threatened with development.

A great deal of the money being expended under the API program is directed at preserving dairy farms.

Massachusetts has over 700 dairy farms, producing approximately 600 million pounds of milk per year. Dairying is the largest agricultural enterprise in the State and occupies over 70 percent of the tillable agricultural land.

Unusual tightness in supplies caused by an overreaction to perceived problems could cause chaotic conditions in the Boston fluid market, in which handler and retail margins have been historically low.

The strong economy enjoyed by Massachusetts during the past number of years has resulted in an increase in population and a demographic shift to higher food consumption.

National dairy policy should continue to take into account regional differences in production costs to guaranty adequate close-by supplies under the Federal marketing order system.

Mr. COELHO. Thank you, Mr. Kelley.

How many congressional districts are you involved in Massachusetts? How many——

Mr. KELLEY. We have 12.

Mr. COELHO. I know we have 12. But how many of those have dairy cattle in them?

Mr. KELLEY. I would say about 7 out of the 12.

Mr. COELHO. Seven out of the twelve?

Mr. KELLEY. Yes.

Mr. COELHO. You have a lot of work to do. We need to work with you on that—those seven Members if we can.

Mr. KELLEY. Thank you, Mr. Chairman.

Mr. COELHO. Mr. Jeffords.

Mr. JEFFORDS. Thank you, Mr. Chairman.

I want to express my appeciation. I know some of you were here, also—I guess all of you were here to participate yesterday in the Northeastern discussion that we had. And I had a chance to discuss some of these things with you.

I deeply appreciate your testimony today. And feel free, if you desire, to provide us with additional testimony for the record, as the record, I am sure, will be held open for awhile, for you or any other member of the Massachusetts farming organizations who want to provide it. We certainly want to make sure that we understand the implications on the Massachusetts situation. And I would just echo the remarks of the chairman here, that it's very important to get your people in line there. We've had some, shall we say, diversion program within the ranks there which we would like to eliminate.

And without mentioning names, I understand, by good fortune, one of our most articulate critics now has a lot of dairy farms within his congressional district, which may somewhat lessen his enthusiasm for the criticism he's had in the past. And I hope that does occur.

Mr. NOURSE. And I hope it will quiet his voice down a little, too.

Mr. JEFFORDS. Yes; right.

Mr. COELHO. Mr. Lewis or Mr. Martin.

Mr. Martin.

Mr. MARTIN. Mr. Nourse, I understand that you import 90 percent of the milk you need in Massachusetts?

Mr. NOURSE. Yes; just about 90 percent We produce only about 10 percent.

Mr. MARTIN. I wanted to make sure I had it right. Thank you.

Mr. NOURSE. Well, we like a continuous supply of clean, wholesome product.

Mr. COELHO. And you need a dairy program in order to do that?

Mr. NOURSE. That's correct.

Mr. COELHO. We need to communicate that.

Mr. NOURSE. You know, when you have shifts in prices, if you have the wrong kind of a shift, the quality goes down, because people don't put the effort into producing a good quality milk——

Mr. COELHO. Right.

Mr. NOURSE [continuing]. Because of the low prices.

Mr. COELHO. Thank you very much. I appreciate your testifying.

Mr. Pominville, you may proceed.

STATEMENT OF RICHARD POMINVILLE, DAIRY FARMER, MIDDLEBURY, VT

Mr. POMINVILLE. Gentlemen, I appreciate the opportunity to testify before you today. I am particularly pleased to have a Representative here from California.

Many of us feel that some of our problems are caused by milk being produced in the Far West.

My name is Richard Pominville. I've been a dairy farmer here in Vermont for 32 years. I started with a 100-acre farm and 19 cows in 1953. I am the first generation on this farm. And by the looks of things, I think I will be the last.

I have developed that 19-cow farm to a capacity of around 190 cows. It is now considerably less because I've been in the deferment program.

I also started with a capital of $2,000. And I had lenders that had a great deal of confidence in me.

I must say that my debt has increased at a higher percentage than the size of my farm.

Like my lenders who had confidence in me, I've always had confidence in myself and in the future. But right now, after 32 years, and at the age of 54, I am concerned, gentlemen. I am concerned about the future.

If I may transgress just a few seconds, I have an aged father who has become extremely confused in recent years. At one time we were giving him medication prescribed to lessen his confusion, but it caused side effects. Other medication was then prescribed to help control the side effects.

I can't help but compare my father's illness and the attempts to control it with the situation we are now facing in the dairy industry.

Dad's illness is incurable, so we have to live with it. The dairy industry's illness is not incurable, but it cannot be cured with Band-Aid medication. We need to treat the cause, not the symptoms. We need to treat the cause with long-range imagination, while at the same time not letting the patient die.

Too often the solutions we come up with end up with making the situation worse than it was before, and we find ourselves back at the table trying to come up with a solution to the solution.

The major long-range solution always talked about our quotas. I don't like quotas because it renders the dairy industry beyond the financial needs of a young family unless they get started through inheritance.

One of my favorite suggestions for solving problems is to investigate a period of time when there didn't seem to be a major problem. Look at what we were doing then and what was so different than what we are doing today.

For long-range imagination, I think our tax structure should be changed to discourage the tax shelter people from getting into the milk business. I feel, in the last few years, investment credit has done nothing but encourage the well-financed farm to get even larger. Investment credit is especially attractive to the tax shelter.

Even old, established FmHA probably should be scrutinized. Too often farmers have gotten themselves into financial problems by the purchase of huge pieces of machinery and elaborate storage facilities only to have FmHA come and bail them out.

I know one farm that was in FmHA finance for over 30 years. That farm could well have gone into commercial financing.

Young people were crying that there was no money available for them. FmHA finances should be there to help, to help establish families. But limits should be established to keep them at a family-sized operation.

Gentlemen, I feel we are now at a major crossroad. Our future depends on which way we turn.

To turn, again, to short-term solutions, I think would be disastrous. We must look at the cause of the problem, with long-range solutions, while at the same time not letting the patient die.

Mr. COELHO. Thank you. Mr. Leete.

STATEMENT OF DELBERT A. LEETE, DAIRY FARMER, WELLS RIVER, VT

Mr. LEETE. I want to thank you for allowing me the privilege of speaking today.

Most of the things have been pretty well covered, but I'm going to give you just a few of my own comments.

I think farmers produce and work for the consumers, to feed them and supply them. The consumers should contact their Congressmen and Representatives more and keep up to date on what's going on in the agricultural world.

With the new advertising program we have, we should have better sales, with plenty of milk and dairy products. It keeps our people healthy. It saves medical costs later.

While I'm talking about consumers, I think that the farmers have been subsidizing the consumers for quite a while.

We borrowed the money that's in the banks to produce food. And then, if we don't show a profit, it will be gone.

Farming is one of the most efficient businesses. We could get more efficient, but maybe we'd better stay small and family farms.

We've been to a lot of dispersals lately. Most of the farmers say we are discontinuing farming. There's a flood of used machinery on the market which is going to affect the machinery industry all over the country. One man said there was 285 farms selling a day. You multiply that by 20 people, it's 5,700 people out of work in this country.

I think on the new program we should go slow. We don't know what production is doing yet. There are a lot of farmers over 50 years old. The farms will be there, but we may not have the men to run them.

I'm not in favor of large corporate farms. I think we should have at least 2 years on a Government program to work out of it. And I don't like as many imports and that's all, especially—well, I think maybe Congress could have—override the President on that loan to the Western farmers, because we may want them to help us later. We haven't got the effects of their problems yet.

And if grain—they don't raise it, it gets high, then our costs will go up. So, we've kind of all got to work together, the beef farmer, and the dairy farmer, and the grain farmer.

Like they say, if it's cheap grain, it will be cheap milk.

Thank you.

Mr. COELHO. Thank you very much, Mr. Leete. And I think your comments are well taken.

Mr. Frizzell.

STATEMENT OF ROBERT T. FRIZZELL, DAIRY FARMER, CHARLESTOWN, NH

Mr. FRIZZELL. Gentlemen, I did not come here today to testify. I gave up my day of work, which I'll probably do tomorrow as I do every Sunday anyway—I gave up my day to come here and be a member to show that people cared and so on and so forth.

I'm from Charlestown, NH, which is just on the other side of the river, but then I decided to testify when I didn't hear enough of one emphasis, and I'll get to that. A couple years ago when we started the 50-cent fine for producing milk, and then a second 50-cent fine, I was quite disturbed, because I'd already cut production.

So when the diversion program came along I was quite overwhelmed because this was telling me, well, maybe you did do the right thing, and that fitted in, and I did participate in that. And I learned a lot from it. I learned that you can manage how much milk you're making.

You can feed them more grain or less grain, or feed some of the milk to calves, or buy some cows, or sell some cows, but you couldn't do much under that. But on the open market you could. And so it's made me think that maybe quotas aren't so bad after all.

This is what I want to point out. There's been little mention of it today, but I don't think nearly enough. You speak about the problem of young people getting into farming. Well, under the present system they can get in, but they lose all their equity right off.

And under a quota system, they could buy in. They would know what their costs are. This is the whole thing that I understand about quotas, you know where you're coming from, and you know what your costs will be more than now—well, we're out in left field now. We just don't know when the market is showing that.

I think I'll stop there.

Mr. COELHO. Thank you very much.

Mr. Jeffords.

Mr. JEFFORDS. Thank you all for your excellent testimony, and Richard, it's good to see you again. I was out to your farm some time ago, and Delbert, Robert. I only would say that as far as the quotas go, that that's certainly something that I've looked at very closely over the years, and it's much more popular, just for your information, among the Northern tier than it is in the Southern part of the country, as Mr. Lewis would tell you.

But our biggest problem right now, even for consideration, is that the administration is adamant and violently opposed to the quota programs. We have a very difficult time to really consider it, but I can assure you that it will be considered, but I'm not very optimistic about anything.

Mr. COELHO. Mr. Lewis.

Mr. LEWIS. No questions.

Mr. COELHO. Thank you very much.

Next, Mr. David Ainsworth. Please come forward.

STATEMENT OF DAVID M. AINSWORTH, DAIRY FARMER, SOUTH ROYALTON, VT

Mr. AINSWORTH. I appreciate the opportunity to discuss with you, Congressmen, the 1985 farm bill, although I can say that I do not have any proposals and I can't really even define what the current proposals are, because it's very hard to keep up with all the different proposals that are being tossed around.

I'm a fifth-generation farmer on our farm. I currently stepped out with my wife to purchase the farm from my father. We have what would be considered, even in the State of Vermont, a small dairy farm operation. We only run 40 milking cows with equivalent young stock.

With 400 acres in the central Vermont area, that's rather hard to afford except for the fact that we have tried to improve our efficiency, a term which was not thoroughly understood or expressed by professors at the time when I was going to the University of Vermont.

You're facing with a very hard decision here in the agricultural bill. Various conditions between young farmers and old farmers, established farmers and farmers expanding, large farmers and small farmers.

A few observations and questions that I'd like to bring forth are, no real comment has been brought up about the reductions the Federal Government has had in such programs as the School Lunch Program and the WIC Program over the last few years, programs which I think were very good in the fact that they put a quality product, hopefully a quality product, into the hands of youngsters and people that were in need of the product at the time.

I question the economics, the stress that the economics will have upon the young farmers, as brought out by Walt Whitcomb and a few others just beforehand. When times are tough you don't do the procedures on your farm that you were led to believe were correct, because you just don't have the funds to do it, so you try to go ahead and cut corners.

You can either terminate your own life or somebody else's life, or put a bad product out on the market. I question a policy which makes it advantageous to stay in debt. I have a neighbor who happens to have a loan through production credit.

His long-term loan, of course, on the land is at a fixed rate, but his chattel loan isn't. As he proceeds along and is doing a fantastic job on a farm that had been running downhill for several years, they come along and say, well, things are looking pretty good. I think we need to up your rate.

Myself on a chattel loan, which is a short-term loan, when a fellow's finally getting ahead, maybe you should let that fellow get that loan paid off. It's not advantageous for him to pay it off. It's better for him to go ahead and keep in debt, keep in debt, and then he can come into the same situation as the grain farmers did out West, where their equity all of a sudden vanishes, although I doubt land prices are going to drop very fast in the State of Vermont, thanks to the lower tier of New England States.

I question the need or desire to completely remove the current program. I'm not saying that the current program is a good program, but it has worked over the years. The Social Security Program has worked over the years. They got into problems, but did we completely scrap it? No; we made some alterations and developed a procedure which we feel is going to carry on in the future.

The farmers do need a long-range program. That was one of the problems with this past program, was the fact that it was too short term. It's kind of hard once you've got your heifers and cows all bred for the following fall to go ahead and then decide that you're going to try to make a reduction.

There was a vast and rapid sale in the immediate area at the time, and cattle prices plummeted tremendously. I'm not exactly sure that the farmers, grain farmers, and dairy farmers, should be solely responsible for this predicament we've got ourselves in.

Granted, we have to take part of the blame, but in a lot of cases, as I previously mentioned, we are following the advice of some professionals. When I went to school if there was a cash-flow problem in my economics classes, they always said, add on calves.

I said, "Well, how about improving your production per animal, becoming more efficient?" "Well, that's very good," I was told, "but that's long-range. Just look at the short-term range." Well, in agriculture you can't do that.

You can't just figure out what you're going to do in the next 5 to 6 months. You've got to try to plan longer, and this is again where we need a long-range policy, not something that's a short term and it's going to be changing every 18 months or shorter.

Another problem was they always said "Don't become diversified. Specialize. Just specialize in dairy cattle, or just specialize in grain production, or something like this." Granted, in some areas of agriculture that's the only thing they can do because of the market, but it does create some problems.

If you can diversify sometimes it allows you to work your way over hardtimes in one particular field. One of the serious problems that I feel that is being faced, more so out West than here, is the lack of proper agricultural policy as far as the farmers go, or management with the—I guess it was the sodbuster bill you tried to put through last year.

And it was previously brought up in testimony here. There's a sad day down the road when farmers continue to do bad practices only because of economical need. In conclusion, I would just like to say I hope to carry on the dairy farm for the next generation and the generations thereafter.

I feel that I can be very competitive with people in the largest operation in California, Florida, or anywhere else in the United States. However, I can't if legislatively it becomes prohibitive to carry on a dairy operation or any other part of agriculture.

I urge you, please do not make it legislatively impossible for me to carry on a small dairy farm. Thank you.

Mr. COELHO. Thank you, David.

Leon.

STATEMENT OF LEON E. SAUCIER, DAIRY FARMER, SOUTH RYEGATE, VT

Mr. SAUCIER. My name's Leon Saucier. I am a small dairy farmer in South Ryegate, VT. We have 45 milkers, 35 young stock. I appreciate your having this hearing here in Vermont so we can get here and have a chance to have our say.

I also appreciate your having it on Saturday, as on Saturday quite often there's other members of the family around who can help out on the farm so that you can get away. Many good ideas have been stated here today, and one of them that I would like to say that I am also for is getting the nonfarmers off of the farm.

I mean the investors that are investing money into farming to lose money. We're having to compete with farmers who are farming at a loss. My main proposal is long term, no cost to the Government, and will increase revenue to the Government, and it's for all farmers, not just dairy farmers.

What farming really needs is the cost of production. Congress should pass a bill making it illegal to buy or sell farm commodities below the cost of production. Congress should also make it illegal for the U.S. Government to buy any surplus.

There would be no surplus if the Government did not buy it. A commodity price would be supported by law, not by Government purchase. A cost of production law would be just like the minimum wage law. The Government does not hire everyone who can't find a job at the minimum wage.

Why should it buy all farm surplus? The Department of Agriculture is depressing farm prices by buying the surplus and selling it or giving it away. The U.S. Department of Agriculture, with the help of the extension agency, could calculate the cost of production each year from farm records.

The benefits of the cost of production law would be an increase in employment as the farmers' increased income is spent and an increase in revenues from the taxes on the farmers' income. Agriculture would be reducing the national debt instead of increasing it.

I believe the U.S. Department of Agriculture is increasing the surplus by manipulating the support price. By lowering the support price they cause increased production. The farmer is only responding to the lower price by producing more to cover his fixed expenses and to stay in business.

The free market system would not work in agriculture. This is because when the commodity price goes down, the farmer must produce more to meet his fixed expenses. If the Government puts a floor of 75 percent on commodities, the farmer will grow 25 percent more to cover the loss of a lower price.

The result would be a continual surplus and a continual drop in the farm prices. To go out of business when the price is down, the farmer would lose thousands of dollars and may have to go through bankruptcy. Many times farmers have no other occupation or marketable skills.

As a farmer, you have no choice but to produce more when the price goes down. The Department of Agriculture has a choice, and they chose to put farmers out of business. The Agricultural Act of 1949 provided that milk would be supported at 75 to 90 percent of parity.

Right now the dairy farmers are getting 58 percent of parity. At 75 percent of parity, milk would be $17.65 a hundredweight, $5 more than what we're getting right now. 100 pounds of milk makes 10 pounds of cheddar cheese, which sells for approximately $3 a pound.

If the price of milk goes up $5 a hundredweight, a pound of cheddar would cost $3.50. It would only go up 50 cents. I don't propose that the Government raise the price of milk by raising the support price. I propose that they pass a law making it illegal to sell any commodity below the cost of production.

I also have some notes I made from my hearings here. I support Mr. Davis from Cabot's statement that the drop in the support price has increased the Government purchases. Secretary Block has dropped the price to increase the surplus, and then he's blaming it on us farmers.

I will have to add three cows for every 50 cents the price goes down. And if Block drops the price to $11.60 in July, I think we should start dumping milk. The other thing that I'd like to say is if farm prices are badly suppressed for more than 4 years, and this is what happened in the Great Depression. Farm prices were suppressed for more than 4 years, and we had a Great Depression.

Now, this could happen again. If farm prices are suppressed again for more than 4 years, we're liable to go into a depression. Farmers can survive a short term bad price, 2, 3, 4 years, but if it goes beyond that you're going to have a depression.

We're on number 4 year right now. Thank you very much.

[The prepared statement of Mr. Saucier appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very much. Mr. Russell.

STATEMENT OF CHARLES W. RUSSELL, DAIRY FARMER, RANDOLPH CENTER, VERMONT

Mr. RUSSELL. Gentlemen, thanks for the opportunity to testify here today. My name is Charles Russell. My wife Sandra and I own and operate a 232-acre dairy farm in Randolph Center, VT. We have four young sons. The oldest is 8.

I'll take just a minute to give you the facts about our own operation. Our farm consists of 232 acres, of which 110 is tillable, 75 wooded and the remainder is pasture. I have a total of 105 animals; 60 are milking cows, 20 bred heifers, 10 near breeding age, and the remainder are yearlings and calves.

Our herd is about 65 percent registered Holsteins. We have no other farm enterprises. Our rolling herd averages about 15,000 pounds of milk and 650 pounds of butterfat. We ship about 900,000 pounds of milk a year, and it is marketed through Agri-Mark.

We are presently financed through four sources: Production Credit, Federal Land Bank, Farmers Home Administration, and Massey-Ferguson, for a tractor. Our total debt load is $210,000, which is about $3,500 a cow. Our monthly payments total $4,796.

We pay about $18,000 in interest annually. Our annual income from all sources in 1983 was just over $150,000. This includes milk sales, cull dairy sales, rental income from a trailer on the farm, plus income from the town of Randolph, Farm Credit Service, and the U.S. Navy retirement income.

Our farm enterprise supplies 96 percent of our income. The best part of giving an opinion is that I'm not going to be accountable for its outcome should it be implemented. I recognize at least partially the responsibility that you bear, and I thank you for the opportunity to testify. And I'm an amateur at it.

I believe that if we are going to develop a pie chart of those things controlled by the Government that affect agriculture, we would find an increasing number of governmental influences over the years, more pieces in the pie.

The net result has been that the farm bill each year has become a smaller portion of the pie. It has less influence on agriculture. I'm quite concerned that the Government has become too involved in farming and in other sectors as well.

Basically, I would like to see the Federal Government's role in agriculture reduced. An example: In some areas, I think in the commodity price determination, and I believe that over the long haul, price supports do determine prices, not just support them.

In agriculture financing I believe the Farmers Home Administration has become a hospice for dying farm businesses. In agriculture research I feel that agriculture research and new product development is a task best accomplished in the private sector.

Other areas that I think may need to be phased out or merged are the extension service as we know it, the ASCS, SCS, and Forest Service, and I'm sure there are others. I don't mean phase them out, all of them, I mean many of them I feel could be merged together and accomplish the same tasks.

There are areas, however, that I feel the Federal Government needs to be involved in. They include to establish a safety net for American agriculture to be used in times of natural disasters and in other times when the industry's ill-health puts our Nation at risk.

I believe we need to monitor the production and use of agriculture chemicals, the Government does. I believe that the Government needs to protect our natural resources, especially soil, water, and air, and I believe that we need to set policy to ensure that the American agriculture is equitably represented in the world marketplace.

On our farm we did not participate in the Dairy Diversion Program, but we generally felt that it was an excellent method of reducing the surplus. I would support a repeat performance. This program was especially well received by myself, because it was financed by the very industry that it benefited.

I guess the most important and dramatic influence that the Government has on agriculture is monetary policy, which includes the tax laws. The tax laws probably have a greater influence on agriculture today than the farm bill and all other measures generally identified as farm policy combined.

Subsidizing production creates surpluses. Again, I thank you for this opportunity to testify.

Mr. COELHO. Thank you, Mr. Russell.

Mr. Jeffords.

Mr. JEFFORDS. I want to thank you for your excellent testimony. That's one reason we're up here, to get testimony from the farmers. Generally, without particular reference to those who may be in the audience, we can pretty well tell what the lobbying groups are going to tell us, but we're never quite sure what the farmers are going to say when we get out in the field, and we're never disappointed.

Very excellent testimony, and certainly there's a lot to be done, especially for young farmers like yourselves, and taking a look at what we're doing, you mentioned some of the things such as conservation and sodbuster programs and tax policy, which I think we all agree upon—well, I wouldn't want to speak for everybody on the panel, because different areas take different advantages of the tax policies.

But certainly one of the problems of the 1981 tax bill, among others, was that it does drag a lot of capital into industries that don't need it for the purposes of reducing taxes and not for the purposes of farming.

And that's important. It's good to point that out. There is going to be a problem, I just point out, with respect to your—some concern about giveaway programs. If production maintains a relative close relationship to supply, the giveaway programs that we had are going to come to a halt, and if we get into a recession we're going to get some screams from those that are used to them. And I just point that out.

Mr. COELHO. Thank you very much for your very excellent testimony.

Mr. Lewis.

Mr. LEWIS. No questions, Mr. Chairman.

Mr. COELHO. Mr. Martin.

Mr. MARTIN. Just one brief question. How many milkers do you have? How many animals do you have, and more importantly, how many milking——

Mr. RUSSELL. Approximately 80 animals altogether, 40 in the milking herd.

Mr. MARTIN. OK. Did you participate in the diversion program?

Mr. RUSSELL. We did not participate, although our production was reduced at the time, because I had the opportunity to sell off some replacements to other farmers.

Mr. MARTIN. Charles, you did not?

Mr. COELHO. He did not.

Mr. MARTIN. Will he answer?

Mr. RUSSELL. Yes; I did.

Mr. Martin. Thank you very much.

Mr. COELHO. OK. Our next panel will please come up.

Dr. Stammer, you may start.

STATEMENT OF RICHARD W. STAMMER, MANAGER, ECONOMICS AND COMMUNICATIONS, AGRI-MARK, INC.

Mr. STAMMER. Thank you, Congressman. I'm pleased to have the opportunity to talk to you today. My name is Richard Stammer. I reside at 23 Shasta Drive, Londonderry, NH, and I am presently employed as the manager of economics and communications for Agri-Mark, Inc., on whose behalf I am testifying today.

Agri-Mark is a dairy cooperative with approximately 3,200 members in New England and eastern New York State. Previous to being employed by Agri-Mark, I was a professor of agricultural economics at Rutgers University. The dairy industry today is in a state of turmoil.

Producers are receiving a lower price today for their milk than they were 4 years ago. They are now faced with continually declining prices and the prospect that the price support program, which has served the country well for 35 years, will be terminated.

It is true that we have had a large surplus problem in the dairy industry for the past 5 years, and that problem is of concern to all, but especially to dairy farmers themselves.

However, we should understand what caused this problem before we consider discarding the program that for 30 years provided price stability to farmers so they can make long-run business decisions and provided consumers with an assured supply of dairy products at a price below what it would be in a free-market environment.

The Dairy Price Support Program did all of this at a very minor cost to taxpayers. In 1984 a USDA study mandated by Congress concerning the Dairy Price Support Program concluded that consumer prices are lower with price supports than they would be without them.

The surplus problems of the eighties are not due to the fact that the Dairy Price Support Program no longer works. Rather, they relate primarily to two factors that resulted in a support price in the seventies that was too high, the fact that milk was supported at 80 percent of parity without taking into account supply and demand factors, and the fact that the parity index itself did not adequately reflect the cost of producing milk.

If price support levels are established in a proper manner, the dairy price support system will continue to be beneficial to both producers and consumers at minimal cost to taxpayers. For that reason, Agri-Mark supports the following provisions for inclusion in the 1985 farm bill:

First, maintenance of the Dairy Price Support Purchase Program by the Federal Government.

Second, the adoption of the dairy-specific parity index developed by the National Milk Producers Federation. This index has several aspects that should result in a support price that keeps markets in balance.

First, the base year, which is updated from 1910 to 1914 to 1976 to 1978, years in which there was supply-demand balance. Second, it relates the dairy support price directly to the cost of producing milk, and third, it has a productivity adjuster that lowers the support price as production per cow increases.

The third part of the program supported by Agri-Mark is a supply-demand adjuster to the support price calculated from the dairy-specific index, and it's based on projected CCC purchases for the next 12 months. This will further assure market clearing prices.

The fourth point would be a standby voluntary paid diversion program modeled after the same program incorporated in the Dairy and Tobacco Stabilization Act of 1983. The Secretary should have the discretion of implementing this program if expected CCC purchases after application of the dairy-specific formula and supply-demand adjusters are projected to be between 5 and 7 billion pounds of milk equivalent.

If expected purchases are to be over 7 billion pounds, the implementation of this program should be mandatory. Once the industry has achieved supply-demand balance, the use of the dairy-specific formula with supply-demand adjusters would keep markets in balance, so that this standby program would be needed only in a situation where unforeseen conditions resulted in an excess supply situation.

Such situations might be a serious recession or the rapid adoption of a new technology. In such situations, in the short run, price alone will not be sufficient to keep supply in balance with demand, and the standby program would provide an additional guarantee that excessive CCC purchase situations would not occur.

In the proposal being considered by National Milk, if the standby program is implemented producers would be responsible for program ~~costs~~ above that necessary to purchase 5 billion pounds of milk equivalent. This provision should only be adopted if producers can be assured that dairy import quotas will not be raised above current levels.

Dairy farmers cannot commit to cover purchase costs if import quotas are not maintained. Otherwise we'll be in the same situation in the future as the tobacco industry is in today. A problem of much concern at the present time is how do we bridge the transition period from our current situation, one in which our current oversupply situation is caused by past prices above market clearing levels, to the future situation where prices will be responsive to the market.

We must do this in an orderly manner that will leave us with a strong, efficient dairy industry. Two workable options are available: institute the entire national milk program immediately, which would most likely mean the implementation of the standby paid diversion program; or second, freeze the support price at $11.60 per hundredweight until expected CCC purchases fall below 5 billion pounds, and then institute the entire national milk program.

The primary advantage of starting the entire national milk program on October 1 is that CCC purchase costs for the next couple of years could be effectively capped. The primary advantage of freezing prices at $11.60 for a couple years until markets come into balance and then implementing the national milk plan is that this would provide the most orderly transition from our current situation to one of market balance.

We must keep in mind that the most important goal is the adoption of the national milk market-oriented program for the determination of support prices in the long run. I feel that either of these previously mentioned options, adopt the program now or freeze prices at $11.60, will permit us to make the transition to our longrun goal.

And we, the industry, should give you, our Representatives, the flexibility to balance the advantages of the two approaches with the political realities of Washington and select the approach that will be politically acceptable and move us toward the longrun goal.

Mr. Coelho. Dr. Stammer, you'll have to summarize.

Mr. Stammer. OK.

What I strongly recommend is that whatever transition approach is adopted, that the National Milk Program should be included in the 1985 farm bill so we can reach our longrun goal.

Thank you.

Mr. Coelho. Thank you very much. Mr. Foster.

STATEMENT OF ROBERT L. FOSTER, DIRECTOR, AGRI-MARK, INC.

Mr. Foster. Congressman Coelho, Congressman Lewis, Congressman Jeffords and Congressman Martin, I would like to express my sincere appreciation and that of my cooperative Agri-Mark for bringing the subcommittee's field hearings here to Burlington so that you can hear from us in the field.

I'd like to thank you, Congressman Jeffords, for specifically encouraging Vermonters and Northeast farmers to participate in this all-important piece of legislation. I am Robert Foster. I, together with my father, two uncles, a brother and two cousins, operate a family dairy farm in Middlebury, VT.

Our farm was started by my great-grandfather in the twenties. We, working together, have been able to take advantage of some of the economies of scale, while at the same time providing an environment for our family's participation.

We milk approximately 360 cows, grow as much of our own forage as possible, raise our own replacements, sell some hay, timber, and sap for maple syrup, as well as sell power from our waste management system to the local utility.

I am here as a director of Agri-Mark, and appearing before you to represent Agri-Mark's position. Agri-Mark, as Rich said, consists of a 3,200-member regional milk marketing cooperative based here in New England with some 1,100 producers here in the State of Vermont. Obviously, the farm bill of 1985, and particularly the provision pertaining directly to dairying, are of immense concern to me and my cooperative.

Agri-Mark's board policy is as follows: One, Agri-Mark feels that it is thus absolutely essential to both consumers and producers of milk and dairy products that the support program be maintained through a CCC purchase program to provide commodities for such programs as Pub. Law 480 on child nutrition, to assure the abundance of dairy products for consumers.

Two, Agri-Mark supports a unified national effort through the National Milk Producers Federation to develop and implement a dairy-specific economic formula which would replace the outdated parity concept with a formula tied to actual costs of production. This in itself would save the Government millions of dollars.

Three, Agri-Mark believes that the dairy-specific economic formula should be coupled with a supply and demand adjuster, as proposed by NMPF. These would give the Secretary of Agriculture both discretion and mandatory power to adjust the formula up or down, to take into account supply and demand variations in Government purchases.

The combination of these two items will prevent a runaway situation like we have experienced in the last 3 years. There is general industry agreement on these three points. Agri-Mark has been trying through discussions with our members, through working with other organizations, through our representation at National Milk Producers Federation, to develop a consensus as to the need for and the type of standby provisions needed to make short-term adjustments to a drastic change in either supply or demand.

National unity on this point is extremely important. The Stabilization Committee of National Milk Producers Federation met 3 weeks ago and developed a proposal, which was adopted by the executive committee of National Milk on March 26.

This proposal will be acted upon by the National Milk board of directors when they meet May 10. This proposal includes the three planks that Agri-Mark supports. It also includes a fourth point, which is standby authority for a diversion program and assessments to be used when substantial investments in supply are necessary.

Agri-Mark's board has not taken a position on this fourth point, as put forward by the executive committee. In the past, Agri-Mark has supported or at least not opposed National Milk Producers' position for the sake of national unity.

It will be discussed at our board meeting next week, along with the freeze and support level until CCC purchases drop below 5 billion pounds of milk equivalent. Either program would allow for a transition from today's conditions to the implementation of the dairy-specific formula and the appropriate adjusters, as I mentioned earlier.

As you know, the current legislation allows the Secretary of Agriculture to drop the support price to $11.60 on July 1. I feel that if the Secretary does drop the price on July 1, that it is absolutely essential that this adjustment to $11.60 be the floor.

Further downward adjustments as proposed by the administration would be precipitous, stampeding farmers out of business. Many farmers respond to the signals given by Government, and have responded, and heavily capitalized and expanded their operations only to see those signals change overnight.

Dairying is a long-term business, taking 2 or 3 years to adjust and shift production. Many are just now facing the realities of the price drops that occurred several years ago. Farmers do quickly adjust to price increases.

Adjustments to decreases in price, which essentially means going out of business, are prolonged as long as possible. Economists fear that there is an 18- to 24-month lag in shaking resources out from a drop in support price.

Farmers going out now are not reacting to the December or April 1 reduction in the support, but rather the one of over a year ago. At current levels, the shakeout will continue for at least another year or maybe even longer. The alternatives of New England dairymen to shift to some other enterprise are extremely limited.

Unlike their counterparts in the Midwest and many other areas of the country, our growing season is relatively short and supports a grassland economy suitable for feeding dairy animals. There have been some efforts to diversity, but those alternatives are limited, and will be of secondary importance to dairying.

Dairymen must be able to become better managers of their resources. For these reasons, I personally feel that the freezing of the support price at no lower than $11.60 would minimize the pain of adjustment which is now occurring.

In addition, it would not be excessive and would lead to the transition to a dairy-specific economic formula, coupled with the appropriate supply and demand adjusters.

Thank you very much.

Mr. **Coelho**. Thank you very much.

Next, Alexandra Considine, please.

STATEMENT OF ALEXANDRA W. CONSIDINE, DAIRY FARMER, BRANDON, VT

Ms. **Considine**. I am a dairy farmer. I live in Addison County. I milk 100 cows now. I have 130 heifers. You can probably tell by my numbers that I was on the diversion program, and am really about to crank up. I have 60 bred heifers ready to come online, and they are all going to be milking. I milk three times a day, and I will milk three times a day again if I have to to make my payments.

I grow my own forage and half of my grain requirements to high moisture shell corn. And basically, that is the farm.

My feelings about what should be done. I have not been here very long. But one thing that I have not heard said is that in a very general way I feel that getting the deficit in line will really help the farmers. We will not be competing with the Government for the available funds. And I heard quoted that a 1-percent drop in the interest rate for farmers means 10 percent more profit in their pockets. And I figured it out for myself, and that is true. Every percent that it drops, it is 10 percent more profit in my pocket, and that would help.

I would like to see the tax shelter farmers have out of there. ITC is hurting us, and a lot of capital is there that does not belong there. That has already been said. I would like to see a market-oriented pricing program with a price support system with a trigger mechanism based on CCC purchases. I do not know what the specifics should be, but I am sure that the agricultural economists can figure that one out.

The long-range program. You cannot plan a business like this that is so capital intensive without a long-range program. It really hurts. And do not give us a stopgap program. Something that gets pushed through. I think that it should be really well worked out.

I think it has to be taken into consideration that we have been a heavily regulated business, and we need to be weaned slowly. But I think that the feeling of farmers that I read is that we really do want to become more market oriented, and that is our basic goal. But you just cannot pull everything out from underneath us.

One other thing. I think that the farmers who are going out should perhaps have some kind of, I hate to say program, but I say that there should be some help given to them to retrain and get new skills. Because it is a tough battle that they are going to have to fight, and I might be one of them. That is all that I have to say.

Mr. COELHO. Thank you very much. I appreciate your comments. Brent Lindstrom.

STATEMENT OF BRENT J. LINDSTROM, DAIRY FARMER, TUNBRIDGE, VT

Mr. LINDSTROM. I am Brent Lindstrom from Tunbridge. I am one of the more unfortunate ones. On October 20, we had to sell, I believe mainly because of the Government programs. I mean you took 50 cents out, and then you took another 50 and you dropped the support price, and then took another 50.

We were advised by the Government people that we did not need the program. That we would be a good manager, we had registered cattle, we could sell this, we could sell that. Well, when you take 18 percent of pay, I could not make it.

I started in an ABS breeding business to help keep the farm going, and I am glad I did. I mean all of these farmers who said that they cannot do anything else. I had 2 weeks of training. And I will tell you, I do not know if I will go back to milking cows or not.

We work hard. We have to work 7 days a week to do it. Even in the ABS business, we have had 3½ days off in the last year and a half which is not bad, but that is beside the point.

One of my complaints mainly is on your FmHA loans. We applied three times. The first time we were told that we were too poor, that they would not even loan to us. So we go to Randolph Bank, and they loaned us the money.

The second time, they told us that we were too rich, that we could go to PCA and borrow the money. And 1½ or 2 years ago now, we went and said we need help, we have overextended a little, and all we need is a cut on the interest rate. We cannot afford 12 to 14 percent interest. If we could have a 5 to 7.5 percent loan like a lot of the other farmers have, we could make it.

They told me that I was too good of a manager. I mean it just really, you know, is kind of a setup. I think that the people you have making your farm loans are not merely agricultural people. I can take you out and show you farm after farm that they loaned to. They could not manage if they tried.

I believe that the milk market should be let go on a supply and demand situation. Every business that works on supply and demand when supply gets low enough, the price goes up. Your outfit told us themselves that what we ought to do is string up all of the farmers and when 25 percent are kicking, kick the rest of them down.

There is just about 25 percent overproduction in this country. That is what has got to happen, 25 percent have to be cut for the rest of them to survive. Supply and demand is the only way to make that. I mean if anybody in this country wants a Government handout, they can get it. You can either get it on welfare, or you can get it through some Government program.

The people who do not want the Government handouts, it seems like they are put under. I do not know if that is quite right.

Like they say, most everything has been said. I do think that it is kind of ironic that FmHA loans to a farmer for 40 years and then gives him a 3-year agricultural program at the most. That is why I did not get hung up with the Government too much.

I think that they need a long-term program. I think that we should put out a higher quality standard product. Over the years, we have lowered it and lowered it from the protein and butter fat base in our milk down to I believe the mininum is 3.3 now, is it not?

Mr. **Coelho**. Butterfat is 3.25.

Mr. **Lindstrom**. They lowered it again, 3.25. And a lot of people complain about the taste and this and that. I do think on your Government inspections I think that some farmers are let go that are pretty shabby, and I think they just are not equal on that.

There was one mention of a quota system. I do not know how free enterprise a quota system is. If some guy wants to get into the business, why should he have to buy his market to ship it in. I started the ABS business, and I am glad that there was not a quota on it in our area.

And here again, the tax shelter program. I do believe that you have let a lot of doctors, lawyers, and everybody else jump into agriculture, and it really just hurts the family farmer. You cannot compete with the millionaires dumping in money.

Mr. **Coelho**. Thank you very much, Mr. Lindstrom.

Mr. Jeffords.

Mr. **Jeffords**. Thank you for your testimony all the way down the line again. And Bob, I certainly appreciate you coming and sharing with us the Agri-Mark, and I will be talking to you more privately as we have in the past.

Dr. Stammer, I have just one question for you. There has been criticism of the dairy specific provisions of the National Milk Producers Federation program as not taking into consideration the productivity factors substantially enough.

Have you heard that criticism; and if you have, have you examined it from that perspective?

Mr. STAMMER. I have not heard that criticism. I was working on that committee that put those productivity factors together. And I feel, based on at least past productivity, that they are probably a substantial enough adjuster to adjust the price for changes in productivity. They may have to be looked at if we get into bovine growth hormones or something like that.

Mr. JEFFORDS. I wondered whether that was considered.

Mr. STAMMER. That was not considered in developing those productivity adjusters.

Mr. JEFFORDS. I think that we have to take a look at it from that perspective at some point. I am not asking you to do it right now. But I would appreciate it if you and those others who might be familiar with that might take a look. Because that question, I am sure, is going to be asked of us, as to whether the bovine growth hormone goes into effect, what will happen to that factor, and will it adequately recognize that.

Not that that is an easy thing to do, because we do not know what the cost of that program is going to be, and whether or not it is really going to be a cost productive element or whatever. But I know that we are going to be asked that, and I would appreciate any comments that you might have later on.

Mr. STAMMER. I think that that is a very good concern. I think that if we want this to be a longrun program, which we do, that we do have to have that productivity factor rate, and I appreciate your concern.

Mr. JEFFORDS. Brent, I appreciate you coming here knowing that you have been put out of business in that sense. And I appreciate you coming by and sharing that with us.

Mr. LINDSTROM. I will be back. I did not sell everything I had.

Mr. JEFFORDS. Good, I am glad to hear that. I am sure with your attitude that you will be back again.

Mr. LINDSTROM. It is hard to keep me down.

Mr. JEFFORDS. Alexandra, I do not think that you are going to be in the need of retraining from your testimony at all. But I would point out that we have been primarily for the midwestern farmers working with the Department of Labor to get them to recognize that the present dislocated workers program that we have should be made available to the farmers.

It is my understanding that the Department of Labor will be issuing some corrective instructions to Governors of States letting them know that that program is available. There has been considerable concern, and that is a good question because of that.

Thank you very much to you all.

Mr. LINDSTROM. You know, Mr. Jeffords, there are not too many farmers that are not their own mechanics, carpenters, most anything. I do not think that any true farmers have much trouble finding a job.

Mr. JEFFORDS. No; I am sure of that.

Mr. COELHO. Mr. Lewis.

Mr. LEWIS. No; I have no questions.

Mr. **Coelho**. Mr. Martin.

Mr. **Martin**. Yes, Bob, were you in the diversion program?

Mr. **Foster**. No; we were not.

Mr. **Lindstrom**. I was advised not to go on it.

Mr. **Martin**. And Alexandra, you were?

Ms. **Considine**. Yes.

Mr. **Martin**. Thank you very much.

Mr. **Coelho**. Thank you. I appreciate your testimony.

Mr. Giroux, you may begin, please.

STATEMENT OF JOSEPH W. GIROUX, DAIRY FARMER, PLATTSBURGH, NY

Mr. **Giroux**. At this point, I would like to thank Mr. Martin for inviting us here from New York. And I would like to take the opportunity to thank the members of the House Agriculture Subcommittee on Livestock, Dairy, and Poultry, for allowing me to comment on the dairy portion of the 1985 farm bill.

My name is Joe Giroux, and I am owner and operator of a dairy farm in Clinton County, NY. That is right outside of Plattsburgh, NY. I farm 450 acres of farmland. I milk about 55 Holstein cows, and do some crop farming besides that.

As a dairy farmer, that of a family size, I experience tough economic conditions within the agriculture sector on a daily basis. Our current problem stems from numerous factors such as high interest rates, the strong American dollar, low feed costs, and Federal dairy policy which up until the recent past has indirectly encouraged the production of milk and dairy products above and beyond the appropriate levels.

The diversion program has had a significant influence on the recent trends of declining milk production. I also believe that the declining market conditions and the increasing cost-price squeeze have been major factors in 1984 reduction of production.

Despite all of the good news in 1984, if there were any, caution in 1985 should be taken. Replacement heifers are at a record high. The milk-feed price ratio is very favorable for milk production, and nearly one-fifth of the 1984 production decline could be attributed to the drop in output per cow.

The proper long-term program must be implemented in the 1985 farm bill that will send a proper signal to the dairy industry. It is my belief that the price is the only indicator necessary for the dairy industry to reform its ways. The Dairy Price Support Program is the proper mechanism through which price should be allowed to send the signal to the dairy industry.

Now granted, the Dairy Price Support Program has not been sending the proper signals to the dairy farmer in recent years. But, this is because the price was not allowed to decrease during the period of rapid surplus production from 1980 to 1983.

As you recall, the Secretary of Agriculture lost his authority to adjust the level of price supports according to the level of Government surplus purchase.

Overall the Dairy Price Support Program has maintained a relative balance of supply and demand in the dairy industry. Why throw out an entire program when only a few modifications are necessary? The modifications that I would recommend are: One, eliminate the parity concept and establish a level of price supports based on 90 percent of the previous 3-year average on all milk prices.

This will guarantee the support price will function as a safety net rather than an income enhancer as it has in the recent past.

Two, further adjust the support price up or down based on the level of Government purchases of surplus dairy products. And three, establish discretionary secretarial authority to further adjust the support price downward not more than 3 percent per 6 months if the CCC purchases are to exceed 8 billion pounds.

If properly implemented, we will be assured that the correct economic signals are sent to dairy farmers. In other words, if Government purchases increase, price supports will decrease. This so-called trigger mechanism should have specific increments associated with various levels of Government purchases. The following scale indicates the program, and I have done a scale on pricing. But that would be up to you fellows to work out.

Net Government purchases (billion pounds)	Percent of support price	Projected adjusted support price (as of March 1985)
Less than 3	104	$12.46
3.0 to 3.99	103	12.34
4.0 to 4.99	102	12.22
5.0 to 5.99	100	11.98
6.0 to 6.99	98	11.74
7.0 to 7.99	96	11.50

As a dairyman, I will know what the level of production will be and can make the decision on this program. Implementing a diversion program of any type of a supply managment system makes no sense at all. I do not support any type of restraints on the dairy industry.

I do not stand alone in regard to this dairy policy of the 1985 farm bill. In New York, we have a 22,000 member farm organization that supports this, and throughout the world, 3.2 million families currently advocate this position. In addition, dairy farmer organizations throughout the Northeast have come together under the auspices of the 1985 farm bill committee—a committee which includes the Vermont Farm Bureau and Agri-Mark Cooperative—also supports continuation of this Dairy Price Support Program and tying price support to Government purchases.

I also think that the voice of the farmer should be a major concern. Do not let the economists tell the farmers what the farm bill should be. After listening to the comments at the conference that we had here last Thursday, my feeling is that the economists are being heard and not the farmers.

And I appreciate that after the hearing today that farmers probably did have their chance to speak to you and express their feelings. I am not going to overemphasize what the group said, but I think that we have some agreement here in this conference before we get done. We have a few that disagree, but I think that the basic disagreement that I see is this diversion type program now.

Some people think that that is necessary for standby. Believe me, I was one of the participants in it, and I am not supporting it right at this point. Because I think that I like a free market type of a program. I do not want to be restricted and told what I should do and what I cannot do. Thank you.

Mr. COELHO. Thank you very much. Mr. Ashley.

STATEMENT OF CHARLES H. ASHLEY, DAIRY FARMER, WEST CHAZY, NY

Mr. ASHLEY. I want to thank Mr. Martin and the House Agriculture Subcommittee on Livestock, Dairy, and Poultry, for allowing me to comment on the dairy portion of the 1985 farm bill. As a dairy farmer, I have experienced the cost-price squeeze and everyone else has. All of my input costs are up except probably feed grains at this time.

I believe that the industry is beginning to face the fact that we are producing too much for the marketplace. The only long-term solution is balancing supply and demand. And to avoid the extreme ups and downs, we need the Dairy Price Support Program. It has maintained the relative balance of supply and demand in the industry.

The present program got out of balance when the Secretary of Agriculture lost the authority to adjust the level of price supports in accordance with levels of CCC purchases. We need to update the present program by either a new parity formula or by some form of indexing for setting the support level.

The establishment of a formula that will authorize the Secretary of Agriculture to move the support price up or down in response to supply and demand as reflected by the CCC purchases.

The original purpose of the program was not to enhance prices, but to supply consumers with an adequate supply of fresh milk at reasonable prices. If the program were eliminated, we would have too many extremes that it would be disastrous. There would be no stability, and we need a long-term program.

The program that I favor is essentially the same one proposed by the 1985 farm bill committee here in the Northeast. This is supported by the Farm Bureau in cooperation with most of the co-ops of the Northeast. The necessary adjustment must be gradual. We have to have a time to get out of a situation that we have been a long time getting into.

The diversion program worked, but it was too short term. We are now in the same situation that we had 15 months ago. I oppose a diversion program here in the Northeast because in the Northeast, $160 million was taken out by the 50-cent deduct, and the Northeast farmers only received $50 million back. So, the Northeast lost $110 million during the diversion program.

It benefited the Midwest where the problem originated. It created shortages in the South. If supplies are short, it therefore increases costs to consumers.

I oppose quotas for the following reasons:

Agriculture in this country is the most efficient in the world. Quotas would remove incentives for efficiency and reduce competitiveness in the industry.

Quotas tend to take on capital value, and make it harder for the young farmers to get started.

Fairness and equity in the national program would be a constant problem. We are only 2 percent of the population, 98 percent depend on us for food. Quotas would definitely raise food costs.

It is a proven fact that industry is much more efficient without Government control.

Many of the farmers got into trouble for several reasons, many of them not their own fault. But I think that credit was too liberal. The original intent was very good. But politics and some of the things that got into the act, I do not know what happened there.

Inflation is another problem. High interest rates, a strong dollar. And I strongly favor the National Dairy Promotion Program. And dairy advertising is now a big business. And I think that by being a big business that we attract more advertising agencies and a much better job can be done.

As our elected Representatives, you have a tremendous job and responsibility to lay the groundwork for long-term stability. Thank you.

[The prepared statement of Mr. Ashley appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much. Mr. Burgess, please.

STATEMENT OF ALMON C. BURGESS, DAIRY FARMER, BRADFORD, VT

Mr. BURGESS. Gentlemen of the Livestock Dairy, and Poultry Subcommittee, I thank you for the privilege of having the chance to say a few words. I am a dairy farmer operating a family farm with my son and daughter. And I want to say that this past year has been a difficult year for most dairy farmers, but it looks as though we have troubles ahead unless we have a good sound dairy program.

There is little question but what milk production will increase now that the diversion program has ended. For that reason, the program should have been continued because it was working well. Perhaps enough dairymen will fall by the wayside to contain the increase, but I hate to think that we have to profit by someone else's distress.

In the event of an increase in production, should we resort to a quota system. I do not like the idea, but it is really silly to continue producing more milk than we can sell. For one thing, I am sure that we should continue with the milk support system as it has really helped maintain the program.

The support price should be maintained at its present level and not reduced. If it is reduced, it will be the surest way of increasing production.

I think that during Eisenhower's administration and Kennedy's administration that the support price was dropped, and within a year we had a substantial increase in milk production. I am very much of the opinion that we must not drop the support price.

For one reason that we must continue the present support price is that most families have a set cash-flow that if they cannot get it with the present production, why they go to increased production to take care of the increase in costs.

We are not alone in this, as many, other than the dairymen, are involved. It is estimated that about 24 million are involved in agricultural related work in this country. And unless the farmers are in a profitable state, why others are going to suffer.

It is rather ironic that because we are faced with a 7-percent overproduction of milk that we are faced with disaster. And yet there are literally thousands of children and elderly people in this country that are going hungry.

I have got to say that all I know about this is what I read in the paper. I am like Will Rogers. He said all I know is what the paper says. But it is very evident that there are a lot of people that are going hungry, and it is a shame when we are producing too much that that in some way it could be distributed, so that it will take care of the situation.

If we as dairy farmers and other farmers go down the drain, we will take a lot of other people with us, especially the bankers. This has happened in the Midwest. I do not think that we will face that. I hope that we will not, in New England. But unless the farmers make a living and more than a living, it is going to react with everybody.

At the present prices, it costs about, I figure, $5,000 for a farmer to start farming for every cow that he milks. And the investment that he has, he can go down the drain pretty fast. And I am especially interested at this time as far as myself goes, I am not going to farm many more years.

But we have a lot of young farmers that are starting in farming that are heavily in debt, and we should have a stabilized dairy price to keep them in business. Thank you.

Mr. COELHO. Thank you, Mr. Burgess. Mr. Gray.

STATEMENT OF ROBERT A. GRAY, DAIRY FARMER, BETHEL, VT

Mr. GRAY. Congressman, my name is Bob Gray. I operate a small dairy farm in Vermont with my wife and two small children. I have been farming for about 5 years. I have about 70 head, and milk about 35 cows.

We have tackled the problem of reduced income a little bit differently. We have not tried to add cows, but what we have tried to do is become more efficient with the ones that we have. And we have tried to cut our other expenses. And hopefully by doing that, we make ends meet.

However, if you continue to lower the milk price, it is going to be difficult for us to continue to cut. And I think that we are going to be in a situation of either having to borrow more money to add more cows or to leave the business.

I am not really too excited about leaving the business. I was in education for 10 years. I went to farming because I wanted to watch my children grow up. I wanted to be with them, I wanted to help them make the decisions, and I wanted to give them a sense of responsibility. And farming does all of those things, and it does it very well. We work hard and long hours, and you have to have a strong will to survive.

I believe in a free market system. I think that there should be a modest surplus. I think that we do need long-term programs. Because one of the problems that I have is that it is very difficult to plan when the rules are constantly changing.

I remember when the last farm bill was put together and it was passed. I think that within 3 months that the rules changed to the game. And if you are playing a basketball game and you change the rules at halftime, everybody gets confused. You just cannot do that kind of thing. You cannot do it to farming, and you cannot do it to people. It is like being yanked from one end to the other, and it is really difficult.

I think that Congress has got to be willing to tackle the tax shelters. Everyone here has said that. And it is a real reality, because we cannot compete and make a living. I am not even saying make a profit, just make a living, if the person that you are competing with does not make a profit, and he wants to operate at a loss.

I have a suggestion. I think that tax shelters are a necessity in our economy. I think that we need them, because you can put those tax shelters in different spots, and you can, I think, build up the economy in certain areas by using them. So I am not against them at all.

I think one place in agriculture where there is a tax shelter to take away—do not let these guys own cows and get investment credit and things like that. If you want to give them a tax shelter, let them put their money into PCA certificates or bank certificates, and give them a break if it is going directly into agriculture. And let those banks loan that money out at low interest loans to farmers. And maybe that will help the Government get out of some of the programs.

I am financed with FmHA, and I have had no problems. It has been really good to me. But I would just as soon finance through a bank or through PCA if the interest rates were such that you could afford to stay in business to do it.

And so instead of putting that tax shelter and letting them buy those animals and getting the credit, why not let them buy the certificates, and let the farmer take the money from the lending institutions. It seems to me that that is a lot better way of doing it, and they could still have their tax shelter, and we can have the farms.

I think that another thing that really bothers me is imports, and imports are murderous. My dad lost a job in a heel factory because shoe imports are coming into the country, and drove the heels out of business. I have some good friends that own a big lumber mill, and they are on the brink of just barely trying to survive, because of the trainloads of Canadian lumber coming into the United States.

I think the same thing with the dairy industry. I read an article in "Dairymen." I think that there was a graph there. On the graph, it showed how much Government purchases of dry milk had dropped. And right beside that there was another bar graph that showed the amount of casein imports that are brought into the United States during the same period of time which more than equaled the amount that we had dropped.

Things like that do not make sense to me, and especially in a government where we are the people paying the taxes, we are the people you are representing, and we are the people that the Government is made of. Yet I do not understand why these things are happening.

The Government investigated the effects of casein on the milk industry, not too long ago as a matter of fact. And they came up with a proposal, something that said that they were not affecting at all. I cannot believe that. I would like to know who makes that report and exactly whose side are they on.

They did the same thing with the lumber industry, and they said that Canada was not affecting it. And I wanted to bring some pictures today of the train cars that go by our farm everyday loaded with lumber from Canada, and I cannot believe that that is not affecting us.

Mr. COELHO. You are running out of time, Mr. Gray. You better hurry.

Mr. GRAY. OK. I think that if you want us to decrease agricultural production, then I also feel that you have got to do something about the imports. Because if we decrease production here in the United States and the European countries are able to flood our markets with imports, that the American farmers that do remain are not going to be in any better situation than the ones that are here presently right now.

I also feel that it is too bad that we have all of these surpluses in the country, and that we have all of those people starving in the world. I think that I have made all of my points.

Mr. COELHO. Thank you, Mr. Gray. You have made some good points. I appreciate your testimony. Mr. Jeffords.

Mr. JEFFORDS. Thank you. I am sorry that I did not hear the first two testify. And I would have to be very candid and admit the fact that you were from New York had something to do with my decision to catch a quick lunch at that point. I knew that David was here to listen to you.

Almon, I appreciate you coming. I certainly have enjoyed your advice over the years, and I am glad to continue to have it. I would point out to both of you that there are some great inconsistencies in the Government, but I guess that nothing ever guaranteed that Government would be consistent, and probably never will be.

One of the inconsistencies that you were kind of referring to, Almon, is the WIC Program. That is one that we are cutting back, and yet the studies show that for every dollar that we spend in WIC that we get a $5 reduction in medical costs because of reduced problems at birth to children. So we continue to cut it back, even though the participation in the program except in Vermont and some areas where it has been in a long time has been dismally low, because we do not have the money to put the program in.

If you can save $5 for $1, that is not a bad deal. But trying to figure that one out if you want to talk about inconsistencies in Government. That is a good one. Thank you very much.

Mr. COELHO. Mr. Martin.

Mr. MARTIN. Yes; I just want to thank everybody on the panel, and in particular my constituents for coming across the lake here. And Mr. Jeffords, believe me, he will hear. I will make sure that the printed copy is there, and we can go over it in some detail in

Washington. But thanks again for being here, and it was outstanding testimony by all four.

Mr. **Coelho**. Mr. Lewis.

Mr. **Lewis**. I have one question, Mr. Chairman, for Mr. Gray.

Mr. Gray, what is your interpretation of the free market system?

Mr. **Gray**. What is that?

Mr. **Lewis**. Mr. Gray, what is your interpretation of the free market system?

Mr. **Gray**. I would like to think, for instance, I sell my milk to Agri-Mark, just to use that as an example. I would like to think that if I could sell my milk to Agri-Mark that they could market my milk, take it to market without having to sell it to the Government, and without having to compete against other countries that are bringing in cheese, butter, or whatever and subsidizing it. I think that everybody has to participate on the same level.

Mr. **Lewis**. Thank you, Mr Gray.

Mr. **Coelho**. Thank you. I appreciate the panel testifying.

Mr. Simpson, you may proceed.

Mr. **Chamberlin**. I'm Rupert Chamberlin. Can I go first?

Mr. **Coelho**. Mr. Chamberlin, you may start. He's the head of the farm bureau.

STATEMENT OF RUPERT C. CHAMBERLIN, PRESIDENT, VERMONT FARM BUREAU, INC.

Mr. **Chamberlin**. We appreciate the members of the subcommittee being here. I am Rupert Chamberlin, president of the Vermont Farm Bureau, and I appreciate the opportunity to come before this group to speak on the farm bureau's position regarding the 1985 farm bill now under discussion.

I also represent my own interest as an active dairy farmer with a 200-acre farm in Barton, VT, and 115 head of registered Jersey cattle. The Vermont Farm Bureau is a voluntary organization of 4,434 Vermont farm families from all 14 counties representing every town and village in the State of Vermont.

The major objective of this organization has been, and remains, the economic well-being of Vermont agriculture. Our policy is formed from the members up. Neighbors get together to discuss mutual problems and solutions and bring their ideas to the county farm bureau meetings.

At each county annual meeting, the membership gets a chance to discuss and adopt policy by the democratic process. In turn, this policy is discussed and adopted or rejected by a delegate body elected by the counties at the State annual meeting each November.

The policy is ratified only after each of these steps is taken, unlike other organizations where policy is formulated and handed down from the top or the executive committee. It is with this process that Vermont Farm Bureau and the American Farm Bureau Federation has developed this policy on the 1985 farm bill.

The provisions of the 1985 farm bill are very important to the future of Vermont agriculture. Vermont is a small State, in terms of its total agricultural production. However, 90 percent of Vermont's total gross agricultural income comes from a single commodity--dairy. No other State in the United States will be more affected by the dairy portions of the farm bill than Vermont.

Government's role in farm programs is only to create a climate that gives the farmer the opportunity to produce for the market in relationship to the supply and demand of that commodity.

We do not want welfare. We don't want to establish a supplemental income for our very existence. In an attempt to develop policies for the farm bill 1985, Vermont Farm Bureau, Green Mountain Federation, and Vermont Department of Agriculture held 8-day-long meetings with farm organization leaders throughout Vermont to discuss the alternatives available as possible solutions to the dairy problem. Connecticut and New York participated in several of these discussions.

The alternatives examined ranged from a true free market system to a Government supply management concept. We have also participated in organized efforts with other groups throughout the Northeast.

These efforts, along with the delegate action at the county, State, and National farm bureau levels, have developed into several goals that must become part of the 1985 farm bill as far as we're concerned:

First, improve net farm income, the most important goal.

Second, recognize that all commodities are interrelated, and that any change in the supply, demand, or price of one affects the other.

Third, support a dairy price support program which will bring supplies down to demand levels on a timely basis.

Fourth, favor a system where the price support level is automatically adjusted according to the amount of net dairy products purchased by the Federal Government, and oppose any assessment of producers by the Federal Government as part of any future program.

Fifth, support a moving average of the previous 3 years' all-milk market price for determining the price support.

Sixth, we support the current national dairy promotion and research program, provided it is approved by a producer referendum.

And we are in the affirmative that this will happen. These six major provisions of the farm bureau policy were discussed and rediscussed at each county farm bureau meeting, in the State farm bureau, and in the series of farm bill 1985 discussion meetings that included all these dairy leaders. Most of them are here today.

We believe that after that series of meetings—concluding in December 1984 at the Sheraton Inn in Burlington—the consensus of these major points existed. Common ground for development of a sound, long-range, market-oriented dairy policy was established.

We argued, along with several other organizations, that there is no need for a standby safety net provision for controlling overproduction, although there was much discussion on the standby subject. No major decision was ever reached.

Since that time, discussions by other groups, and independent conclusions of Vermont's new commissioner of agriculture, have brought dairy diversion and standby provisions back to the bargaining table.

Our efforts to unify the industry have faltered. In 1977, during the discussion of the farm bill, high price supports were the main topic and the outcome led the dairy industry into disastrous production patterns that added to overall production problems that have continued to the present time.

The farm bureau was just as guilty of supporting that legislation as every other organization. We do not want to continue that mistake. The 1981 legislation led to constant updates until the recent dairy diversion program was passed.

This program was temporary, to last only 15 months. This program was designed to give the dairy farmers an opportunity to make the necessary adjustments until new approaches were developed for the marketplace.

We were told that we needed to develop a unified front within the dairy sector. Now the administration has indicated its refusal to adopt any diversion program. The diversion generated more adverse publicity for dairy farmers than almost any farm program in history.

Let us try one more time to pick ourselves up as an industry and adopt a plan that will strengthen dairy farming for the future. We believe that such a plan was introduced in the House by Congressman William Emerson of Missouri, the farm bureau farm bill plan, H.R. 1965.

It is an innovative plan, a creative plan, a well-thought-out plan. It takes the dairy problem away from Congress and the politicians. Please give it your consideration. Don't give up on us now. We do not want an extension of the current farm program legislation as our only alternative.

We trust you will have the interest and forethought to investigate the alternatives thoroughly. Thank you, and now I'd like to turn it over to Bob.

[The prepared statement of Mr. Chamberlin appears at the conclusion of the hearing.]

Mr. COELHO. Mr. Simpson, you may proceed for 5 minutes.

STATEMENT OF ROBERT A. SIMPSON, DAIRY FARMER, BRAINTREE, MA

Mr. SIMPSON. Congressman, my name is Bob Simpson. My wife and I own and operate a 600-acre dairy farm in Braintree. We milk 120 Holsteins and have 80 heifers. I serve as the chairman of the Vermont Farm Bureau Dairy Committee, and I'm the only representative from New England on the American Farm Bureau Dairy Advisory Committee.

My time I spend with the Farm Bureau is volunteered. The American Farm Bureau board of directors at their March meeting adopted a plan submitted by the Dairy Advisory Committee for the pricing of milk to be included in the 1985 farm bill.

This plan, which has now been introduced as legislation in the House by Congressman William Emerson of Missouri, includes the following features:

First, the continuation of the price support purchase program.

Second, the determination of the price support using 90 percent of the previous 3 years' all-milk price. This price would be factored in the supply-demand adjuster at the 100-percent bracket, which is at about the 5 billion pounds of CCC purchase level.

Third, this figure would be factored up or down to reflect the estimated CCC purchases. The estimated October support price for this year with 3 billion pounds of CCC purchases would be a support price of $12.96. At the 7-billion-pound level of CCC purchases or more, the October price would be $11.50.

Fourth, the Secretary of Agriculture would be provided with discretionary authority to adjust the support price by not more than 3 percent on April 1, 1986, and for any subsequent 6-month period if CCC purchases are estimated to exceed 8 billion pounds milk equivalent purchases during the next 12 months.

Fifth, the support price and the adjusted support price would be adjusted semiannually, October 1 and April 1, to ensure that dairymen are receiving adequate price signals within a reasonable time period.

The Farm Bureau believes that this pricing system will work without creating huge CCC purchases and without the need for a diversion plan or farmer assessments.

This plan will give dairy farmers the security of a support price necessary for making sound business decisions without worrying about building a base for a future diversion program or declining cash-flow due to producer assessments.

This plan would allow the marketplace to work in the case of shortages, as it did this last fall with the Minnesota and Wisconsin price going over the support price. Farmers looking for more money in their checks should look first to the marketplace rather than to the Government. The Farm Bureau is a supporter of RCMA, and we believe that regional cooperative marketing associations seeking overorder pricing is better than seeking tax dollars.

There are several reasons why the Farm Bureau didn't support a diversion for the 1985 farm bill. First, the diversion program disrupts the orderly marketing of milk, since the highest signup was in the South, where only a fluid market exists, causing milk to be hauled from Wisconsin at a high cost to the Southeast farmer.

Second, farmers in the diversion program were able to raise a lot of heifers in the space and with the extra feed available after selling cows to cut production. Right now heifer numbers are at the highest, 44 heifers over 500 pounds for each 100 cows, and a number of 31 to 33 per 100 would be adequate to maintain our milking herds.

Third, the diversion program didn't decrease the abundance of resources available and devoted to dairy production.

Fourth, all you have to do is mention that there may be a diversion program in the future, and farmers scramble to build their bases.

Fifth, as a Northeast dairyman, the diversion program meant giving some of our market to other orders. The Northeast also paid more money out than was returned to Northeast dairymen as diversion payments. Northeast dairymen are in no position to help supplement the incomes of farmers in other parts of the country.

There are those who seem to think that it's possible to write a farm bill that will keep every dairyman in business. Ontario, Canada, lost one-third of its dairy farmers since going to a quota system. Increases in milk production per cow have resulted in more production today than 20 years ago, with 4.5 million fewer cows.

Lew Mix of Agway, speaking recently at the Northeast Dairy Conference, predicted that production per cow would increase another 4,300 pounds per year by the year 2000.

By using Census figures and consumption estimates, Lew Mix predicted that 21,000 dairy farmers in the Northeast would be able to produce enough milk to meet the market needs. That would mean a drop in the number of dairy farms from the current 39,000 to 21,000 in the Northeast.

That is a loss of almost half of our dairy farms in the next 15 years. I offer no solution, but I want everybody to realize that the increase in milk production per cow and not any particular dairy program will be the cause of declining dairy farm numbers. I've wondered if the Defense Department could buy up old dairy farms and put their MX missiles in the silos.

On the subject of credit, the farm bureau urges the development of programs to help young farmers get established in farming.

The farm bureau opposes any moratorium on FmHA loan foreclosures. To improve the profitability of farming, it's imperative that Congress get the deficit under control.

In the long run, controlling the deficit may be more important than anything that could be written in the 1985 farm bill.

I would like to thank Congressman Jeffords for this opportunity to speak to you today and for the improved communication between farm bureau and your staff.

[The prepared statement of Mr. Simpson appears at the conclusion of the hearing.]

Mr. COELHO. Thank you. Mr. Greenwood.

STATEMENT OF RONALD L. GREENWOOD, PRESIDENT, L.W. GREENWOOD & SONS, INC.

Mr. GREENWOOD. I am not a farmer. I have a small farm equipment dealership in central Vermont, which has been in our family since 1929. Nearly all of our customers come from small, family, hill farms. These small farms are facing major problems, most of which you are hearing about today.

There is, however, a problem developing that draws very little attention, a problem that has its roots deep within the farm equipment industry, particularly among the big names. During the last decade, these companies have concentrated their development and research money on the bigger and more expensive equipment.

The USDA has from time to time been guilty of encouraging this trend by announcing that the small farmers have no future, and are not efficient, and are not modernizing fast enough. These same farmers, not able to purchase what they really needed from their traditional U.S. companies, turned to the foreign market. And believe me, that market has been only too happy to oblige. We as dealers, and with what appears to be the approval of the Government, have not discouraged this development. A few years ago it was risky to try and sell foreign equipment to a farmer.

Now it is routine. U.S. companies such as Ford, John Deere, Case, and International Harvester have further compounded the problem. In order to remain competitive, and without much fanfare, these companies have closed many of their plants in the

United States and joined their foreign competitors by sourcing or producing most or all of their labor-intensive equipment in other countries.

This will leave these former U.S. giants with organizations consisting only of offices and parts depots, while the core of the jobs, expertise, and facilities will be on foreign soil. As examples, Massey-Ferguson has closed all its plants in the United States and now imports all tractors from Canada and Europe.

Nearly all John Deere tractors under 100 horsepower are now foreign made, and in the last few weeks Ford Motor Co. has quietly announced that they will be phasing out their tractor plants in the United States and will also be importing from Europe.

Smaller companies such as New Holland, Gehl, and Hesston are beginning to follow in order to stay competitive. If this industry is going to continue to export, first their factories, then their jobs, and finally come back for agriculture dollars, what will be left to encourage those checks and balances, which we, in our capitalistic system, call competition?

I think the appropriate people in our Government should pay as much attention to this problem as they do to the automotive industry. If not, farmers could experience dramatic increases in farm equipment prices as competition lessens and the dollar decreases in value.

Thank you.

Mr. COELHO. Excellent statement. Thank you, Mr. Greenwood.

Mr. Jeffords.

Mr. JEFFORDS. Yes; thank you, Ron, for putting a little different perspective on things here, but an important element, not only for yourself and the dealers, but obviously for the farmers of this country. I appreciate that very much.

I appreciate the Farm Bureau's testimony, and I certainly listen to their advice. We don't always agree on things, but I do certainly always take it into consideration, and I must say that I admired your independence at pulling away, slightly at least, if not entirely, from the American Farm Bureau on the dairy program, at least your members.

First of all, I have a question. One of the criticisms we've heard, as I said, of the National Federation's program was not having an adequate enough productivity factor.

And the program you recommend is really a look back, rather than a look toward the future—what's going to happen, so you really don't have any productivity factor at all based in your price signaling mechanism, then.

Mr. GREENWOOD. Your supply and demand factor will—if production were not, your supply would go up if cows were producing more milk, so that would lower your price in that sense.

Mr. JEFFORDS. When would it lower it?

Mr. GREENWOOD. Well, your supply-demand factor, when they did it.

Mr. JEFFORDS. If you're going backward, you're looking back, right?

Mr. GREENWOOD. Well, in the Farm Bureau plan you have a 3-year average, and then you have your CCC purchases. If your purchases went up because you had extra supply because the cows were giving more milk, then your price would go lower.

So it is covered in a sense.

Mr. **Jeffords**. OK. I would just point out that if you had looked at what the Farm Bureau recommended—if the Farm Bureau had recommended what the administration wanted, I find a little bit of inconsistency in the statements about wanting to get the budget deficit down.

The program—the price cut would have cost over $1 billion more than the diversion program, and in addition to that, would have increased the amount of storage that we'd had to the point where we couldn't have even held it in the quays which were full at the time.

So I find inconsistency with urging us to get the budget under control, and then having it said that we should have put a program in that would have cost $1 billion more to the taxpayers.

I find some inconsistency in that. If the rest of the Government had cut their costs to the Government by 40 percent, as the diversion program did, we'd be in a lot better position on our deficit right now than we are. Sorry to fight back, but I think in defense of the diversion program it's not really a good rap to say that that's the——

Mr. **Greenwood**. I think in the long term, those farmers that were on the diversion program, they still have their barns there, they still have the cows, and as the lady spoke earlier, she's been raising heifers while she was in the diversion program.

So those farmers are going to come right back and produce more milk now. So maybe you didn't buy their product before, but you're going to start buying it now.

Mr. **Jeffords**. OK. Let me ask, your saying that if you saved money one time you're going to pay it later. Let me answer that one very quickly too. The reason we had such a short program, which created the problems you're talking about, was due to the critics of the program that said it wouldn't work at all, and so instead of having a 3-year program we went to a 2-year program and then in the final negotiations we went to a 15-month program, and then the critics who required us to go to a 15-month program now criticized us because it was too short a program. And that kind of causes a little bit of emotion in me. I'm sorry.

I guess what we need to do is get some of those resources out of there that do produce all the milk before you're actually going to have a long period without increased production.

Mr. **Coelho**. Mr. Martin.

Mr. **Martin**. Just very briefly, I thought it was outstanding testimony, and Mr. Greenwood did put a different spin on the ball as far as—if we don't resolve this problem—what it's going to mean to the whole agribusiness industry.

I did want to thank the Farm Bureaus, not only mine but in New York, throughout the Northeast, who work very hard to try to come up with something that's a consensus, and I know these gentlemen will be listening and the Congress will as well.

I have a 3½-hour trek over the mountains, as I said to Congressman Coelho, and my colleagues, I thank you very much for allowing me to be here with you, for the invitation, and what work you're doing to get the proper information. I hope you have a happy trip.

Mr. COELHO. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman. I'm going to have to take my leave and return to Florida, but I want to say that I've enjoyed this hearing very much, and appreciate being here. I appreciate the work that Jim Jeffords does, and Chairman Coelho, and my friend Congressman Martin from New York.

A long time ago a farmer told me that if you want to hear the truth from people, take a look at what they wear on their feet and look at their hands, and I've done that all day, and I'll tell you, I've heard a lot of truth today, and I appreciate it.

Thank you very much.

Mr. COELHO. I want to thank both Dave and Tom for coming and helping us have the hearings and listening to our farmers, and I know they all appreciate it. Thank you very much.

Mr. JEFFORDS. I want to thank the panel for their testimony, and I also want to thank Mr. Martin and Mr. Lewis for coming and participating. The show will go on.

Mr. Pollard, go ahead.

STATEMENT OF DONALD E. POLLARD, DAIRY FARMER, LAKEVILLE, CT

Mr. POLLARD. I'm Don Pollard from Lakeville, CT, in Litchfield County. Thank you for letting me have this opportunity. I'm more or less a new generation farmer. I'm in partnership with two brothers. We started farming about 12 years ago.

I was at the ripe age of 19. My two brothers were still in high school. We started out with 8 milking cows and within 5 years we were up to 100 cows. That sounds like a lot—a big chunk, but within a year's time all three of us decided to get married to nonfarm women.

So our incomes had to be supplemented somehow. Today we're running around a 650-acre farm. We own only 4 acres, and none of it is tillable, and we've got 365 head, 140 milking. That's a lot of heifers, but I do not participate in diversion. Basically I just had a few good years of heifers.

And the market being what it is, better raise them than milk them. Basically, what I'd like to say—I have no written statement—is farmers for the past few years, most of them have been living off their equity, dwindling that down, not making much profit, if any.

I'm upset with the Government in a few areas. One is the WIC Program and the School Lunch Program, where it is taking the consumption away from our supply that we have, and we're trying to fight back with that with our own promotion, which we contribute to.

And I feel this is offsetting what we're trying to do by them trying to cut back the budget on the WIC and the School Lunch Program, which are two programs that have proven to work, and it doesn't make much sense to me. If it works, go for it.

I'd also like to say that I am in support with the National Milk Producers' policy that they have in front of the Congress. Hopefully we can do something with that. It's one of the better programs I've seen, and the diversion program is a back-up tactic. I think it'll work just as well.

Mr. COELHO. Thank you very much. Mr. Cherniske.

STATEMENT OF MICHAEL J. CHERNISKE, DAIRY FARMER, WASHINGTON, CT

Mr. CHERNISKE. My name is Mike Cherniske. I've got a dairy farm down in Washington, CT, in Litchfield County.

I came here to talk—I've got a little bit of a different point of view and a little bit different way of relating it to you. I went into farming on my own almost 3 years ago. Five years ago I was on a partnership with my uncle, and 5 years ago things were a lot different than they are today.

The farmer was really in the swing of things. My uncle wanted to retire, and 3 years ago I bought him out completely. I borrowed $70,000 from FmHA and $26,000 I financed through him. I bought 53 cows and a moderate line of equipment.

I used his previous records. I wanted to find out what my expenses were. It was going to be tight, but I was going to make a living. I married that year. I wanted to just make a living. I didn't want to make a killing. Well, the way things went, our price going down, price of everything else going up, at the end of 1982 I went out three times a day milking, and we had a little more cash-flow.

I did that for 4 months, and with my limited help—I had my uncle, who wanted to retire, working more, and at the end of 1982 I went off of that. In 1983 I was milking around a little over 80 cows, an 18,000-pound herd average, which I should have been making money at.

Capital was still tight. I made it through that year. Every year I thought I was getting better, things would catch up to me. 1984 come around, I made a projected income, things didn't look that good. I had to look for something a little different.

I went to a diversion program. They brought it up. I gave it some thought, and it looked like my way of going. I had a lot of heifers on hand. I was a little short on feed. I had a good base for my three-time-a-day milking in 1982, so I went on the diversion program.

I signed up for 27 percent. I sold around 30 cows, got a cash-flow again for 1984. I went through my spring season, went into fall. I sold more to have a little more cash. I then went in—I'm now in 1985. I'm using my diversion payments for my spring expenses again.

The way it's gone for years, I just never could plan. I've got—every time at the end of the year, when I project, I've got to do something a little different. It's very hard, and it's—I would really like to see a price support system. I'd just like to plan ahead a little bit.

On these 50-cent reductions, every time I get hit with one it's $5,200. In my operation, I can't stand too many of them. I don't know whats going to happen with the next couple, if they're going to go or what is going to happen. All I know is I can't take too many more.

I'm diversified as I can get. I do sell things on the side, and I have no intention of leaving the dairy operation, and I'll do anything I can to make more. Right now I've got to expand, and I'm working at it. So now that I'm off the diversion plan, I'm making more milk just to get a cash-flow again.

So that's about the point I'd like to bring across. And it was—on the diversion program, I just want to say I think it works. It was a good management tool. We were all rushed into it, but once you got down to it I know a lot of people, my father's farm—he was a little older, he was a little more set, he would not dive into it.

If he had his chance now, yes, he would. I was different. I had to take a chance. I had to try something different. It will work, it's a tool and it's not an easy money thing. You want to—you got to be on top of it all the way, and when it's over you have got to decide if you're going to go back into it or if you're going to make more milk to get a cash-flow.

Mr. COELHO. Thank you very much. Mr. Jacquier.

STATEMENT OF ROBERT A. JACQUIER, DAIRY FARMER, EAST CANAAN, CT

Mr. JACQUIER. Thank you, Mr. Chairman. Robert Jacquier from Litchfield County, CT, a dairy farmer, farmed for 38 years, started with my wife on a shoestring, and I feel that our farm grew with the support system.

It gave us a chance to make some plans and grow over the years. Probably my only problem was with each new child, it added about 50 more cows, because we ended up with about 260 milkers. One son's on the farm with me, one son's on the farm of his own.

So we are truly involved in dairy farming. I'm also a director of Agri-Mark, but I wish to testify only today as a dairy farmer and as a member of Litchfield County Dairy Committee. Both of these two young farmers here from Connecticut are on the Litchfield County Dairy Committee.

I'd also like to thank Mr. Jeffords for inviting us here today, and also for the interest he has taken in agriculture in other States besides Vermont, especially coming down to Litchfield County Dairy Committee a couple of years ago in June and fully explaining the diversion program.

What I want to see in the 1985 farm bill is to retain the price support system, to make it responsible to the actual changes in dairy accounting, such as my colleague Bob Foster, from region 12 of Agri-Mark, and Richard Stammer have outlined Agri-Mark's position and National Dairy Milk Producers.

I think also that on the diversion plan, we've heard so much about it. It did make a change. The milk diversion program accomplished all that we could logically expect from it. It did turn milk production around. It took several thousand cows out of the Nation's herds. Not enough, but it's a start.

Cows have got to go if we're going to get back in line with production. The biggest fault was the short term, but we just couldn't get it longer at the time. In speaking for Litchfield County Dairy Committee today, it is a committee of 50-some farms in Litchfield County.

Only one person per farm is counted as a member. It has gone over 50 years, and that Dairy Committee testified from Congress years ago to start the price support program. It is a committee that is on top of all dairy problems, especially affecting New England but also the whole country.

We felt that the greatest thing that came out of the promotion—out of the compromise was the promotion program. It's hard to really measure its effectiveness that the board's doing in such a short time, but—and also the critics say that the retail sales of dairy products were improving before the advertising started.

But I think the upswing in the economic condition of the country did part of that, but we've got a program going that's out there to persuade people to spend more of their disposable incomes on dairy products, and it can do nothing but help us.

I'm pleased that you've given us a chance to speak. I feel that we dairy farmers that are in the doing must have some part in the planning, and I appreciate the opportunity to be here today. Thank you.

Mr. Coelho. Thank you very much.

Mr. Jeffords.

Mr. Jeffords. I believe you're all in Nancy Johnson's district, is that right?

Mr. Pollard. Yes; we are.

Mr. Jeffords. I want to tell you how much I appreciate her support, and how desperately she tried to rearrange her schedule to be here today, but I told her that I would express to you her deep thanks for coming up here. It's so important that we get people from each State, even though it's only a few, to make sure that the committee is aware of those that are not here today, as well as those that did come, how important dairy is to the New England and Northeast.

I deeply appreciate your coming. I would certainly, being one of the original promoters of the promotion program, appreciate your comments on that. I do have one question with respect to that. I know in our area there's a feeling that knowing how much all the beer people and soda pop people and all spend, that we're still perhaps low.

And a little study, I think, showed that we've got to be spending probably twice as much as we are. Do you think at some time in the future, after maybe things have settled down, we ought to consider something like adjusting up the price support at the same time that we took another 15 cents out, so that hopefully the impact on the farmer would be negative, but we'd have 15 cents more to spend on promotion would be something that might be acceptable?

Mr. Jacquier. I think when the proof of the plan shows something positive you'll certainly get a lot more support, and being in New England, that's where I feel dairy advertising has been the highest, and has shown, and we do keep records of that.

I don't think you'd have a hard time once it starts showing, or does show.

Mr. Jeffords. Thank you very much. Thank you.

Mr. Coelho. I want to thank the panel as well. I particularly appreciate some of you younger, newer farmers participating. That's helpful to us, and I want to encourage it. So I appreciate your appearance.

The next panel will be Mr. Messenger, Mr. Hodgdon, and Mr. Fitzgerald. Mr. Messenger may begin, please.

STATEMENT OF HERBERT A. MESSENGER, SECRETARY-TREASURER, INDEPENDENT DAIRYMEN'S COOPERATIVE ASSOCIATION

Mr. MESSENGER. I would like to express the appreciation of the Independent Dairymen's Cooperative Association for the privilege of submitting our views on the dairy portion of the 1985 farm legislation.

I have to compliment both you and Mr. Jeffords for your perseverance.

My name is Herbert Messenger and I reside in the town of New Haven, VT. I represent the Independent Dairymen's Coop which is a bargaining coop operating under the Capper-Volstead Act with a membership of 125 producers. I serve as its secretary-treasurer and its chairman of the executive committee.

IDCA supports the position and concepts of the 1985 farm bill committee and the ad hoc committee of Vermont. I realize that you folks have listened to a lot of testimony, and being late, probably some of the things I have to say will be repetitious.

First, we would like to have Congress pass a comprehensive national agricultural policy. Agriculture, in no country, in no time ever, has managed to get along without a deliberate agricultural policy—even the ancient Egyptians had one for 14 years.

Second, we support the continuation of the dairy price supports. We do not feel it is a question of whether or not to have a price support program, but what kind. The price support system must be administered on a nonpolitical basis.

We feel we must create a new dairy-specific parity index or another economical formula that addresses the cost of production and productivity. We believe you should implement a supply-demand adjuster that moves the price supports up or down according to the Commodity Credit purchases of dairy products.

I haven't got into a diversion program because these are the positive things we support. In talking about a diversion or a diversion program, we are constantly divided and so we chose not to discuss that or address that. But I would say this, that I appreciate your position in Washington and I realize that you have parameters you have to work at and we have a lot of confidence in both Mr. Leahy and Mr. Jeffords, and we realize that you have to work out the final farm bill and we ought to allow you some latitude to do that job.

Three, we support the continued operation of the Federal order system. Orders have operated well over the last 50 years. Perhaps some of the provisions need changes but we oppose the scrapping of the system.

IDCA supports the continuation of the National Dairy Promotion Program. Declining fluid sales and a dire need for new products, as well as innovative methods to sell products are essential. This is one way we can offset the inelastic demand. With the introduction of bovine growth hormones in the future and superior breeding techniques it will be extremely important to promote our products.

In the 1920's the dire plight of the farmers, under a supposedly free market system, led to Government intervention with the Agricultural Adjustment Act of 1933, and subsequently the Agricultural Act of 1949, as we know it today.

The Federal order and price supports written then have served us well for 35 years, despite bureaucratic criticisms.

Presently, while writing a new 1985 farm bill, we must not forget the past. I am not predicting another farm debacle of the Great Depression where farmers dumped milk in the streets before they would accept the low price of the free market system, or that the price of calves will sink to 25 cents, which I was forced to accept when I was a youngster.

I realize history never repeats itself exactly in the same way, just as our farmers realize each business cycle and each recession is different. Some cycles are long; others are short. Some shallow; others deep. Some are inflationary; others deflationary. But, despite this diversity, it is possible to identify regular patterns and parallels.

There are a number of parallels of the 1920's that we find in agriculture today. Since the demand for fluid milk sales have always been and still are inelastic and unresponsive to market forces, farmers have been forced to produce more milk to meet their fixed debt obligations and taxes. This continues to acerbate the supply-demand problem.

Farm income is lagging in the nonfarm sector and we do not enjoy the same resurgence of growth and jobs as the nonagricultural sector. In fact, some economists were worried that the country has been recovering too fast. This has not happened in agriculture.

We are familiar with the impact the loss of jobs at Caterpillar and International Harvester had on people, stores, banks, and entire communities in 1982 and 1983. It is now 1985 and jobs connected with agriculture are still in jeopardy.

I have with me an article from this weeks Burlington Free Press in which it describes the closing of the International Harvester's Rock Island tractor plant because of declining sales with a loss of 3,300 jobs or more. Every day the paper contains articles illustrating the impact that a lack of a national agricultural policy is having on the farming community.

The Wall Street Journal of March 23 discloses the troubles in the grain markets. The Journal has also devoted a series of three front-page articles on how failure on the farm has dire repercussions in the banking and financial communities.

Another recent Journal article deals with the Government intervention and suspension of orange market orders in the Southwest. Congressman Coelho is probably acquainted with that.

This is an example of the Government taking action against oligopolistic approach by farmers to enhance income.

The fifth article in the Burlington Free Press details this week the plight of the Vermont potato farmers due to Canadian imports, and just last night when I got home I picked up another article in the Wall Street Journal that said, "Mr. Volcker said that—"

Mr. Coelho. Before you read it Mr. Messenger——

Mr. MESSENGER. Pardon.

Mr. COELHO. Before you read it, you have about 20 seconds left of your time.

Mr. MESSENGER. Oh, 20 seconds.

Well, then I'll make this part of the record.

The present administration rejects quota systems or supply controls. The only logical avenue of approach left is through price supports. However, we must devise a system that is more oriented to market clearing, a system that only takes over when things get out of hand, and provide a safety net that would be triggered to work when the market forces fail.

In conclusion, I would like to state that if farm income continues to decline, Mr. Reagan's recovery program will feel this affect. If Congress does not provide a farm bill that is equitable and keeps farm income within range of the rest of the country, we will eventually drag the recovery program down.

Economists have long pondered over the causes of the Great Depression. They agree one definitive cause was that the agricultural polices pursued, both economic and environmental, were devastating to the country.

IDCA's review of the Reagan administration's proposal for the 1985 farm bill is not acceptable in its present form. It leaves too many questions unanswered. In order for free markets to work there must be no Government intervention. In today's world of agricultural subsidizing by foreign countries this would be virtually impossible.

The milk industry while buffeted, is not devastated as are the grain farmers. We will sacrifice as long as it is equitable. Cuts must be fair. We cannot live with cuts that detroy all profit to the farmer.

I believe that if we can write a national farm bill that is equitable and long range, we can work out our problems as suggested by the Northeast program, thus providing for a healthy industry.

Thank you very much for this opportunity to speak before your subcommittee.

[The newspaper articles are held in the committee files.]

Mr. COELHO. Thank you, sir. We will now hear from Mr. Hodgdon.

STATEMENT OF PERRY W. HODGDON, DAIRY FARMER, RANDOLPH, VT

Mr. HODGDON. I would like to thank you gentlemen for inviting us here to hear what the dairy farmers in New England have to say. My name is Perry Hodgdon. I am a dairy farmer in central Vermont. I have been farming for about 17 years, and I would like to take this opportunity to say that the dairy industry has been very kind to me. I have not only enjoyed the farming business, but done reasonably well at it.

First of all, I would like to say that I believe in a free market enterprise system where supply and demand determine price. However, after saying that, I would have to say that I also believe the U.S. dairy industry could not, would not and should not try to function under a free market system during the foreseeable future.

I believe that the free market could not work because our Government presently has more to do with the dairy industry than just the price support program. To take away price supports and continue to pump low interest money into the dairy agricultural segment will not solve the problem, and this is but one of many areas where the Government has cross interests, if you will.

I think a free enterprise market would not work because a free enterprise system would cause a large drop in dairy prices, followed by a short sharp rise a few years later. This is not good for the dairy industry or the consumer. It is one of those situations where you have a no win situation.

Last, I believe a free market system should not be used because it will weaken the dairy industry of the United States, and we will do well to realize that had not legislators, many years ago, laid a sound framework in which agriculture could flourish, we might be meeting here today to discuss shortages, and I do not need to guess what would happen to the chief imports if we really needed them in the United States.

In order for a country to thrive, the country must have sufficient food for her people. We are blessed, not cursed with an oversupply. So, I would say let us not overreact. It is true that it takes consumer dollars to pay for the dairy diversion support program. But remember that oversupply is making dairy products the best buy they have ever been when you adjust for inflation.

I think that the consumer loses—I think what the consumer loses in taxes to support dairy, she makes up in savings on low dairy prices.

Now, I believe we should continue a price support program. It has worked well in the past and can work equally well in the future. A good, long-range plan always needs modifying from time to time. I support the proposal put forth by the National Milk Producers Federation using a dairy specific parity formula. This should have the ability to send proper price signals to dairymen in a way to keep the market satisfied and in proper balance. After a proper adjustment period, I would support the program where dairy purchases their own surplus over a given amount providing this surplus was controlled by dairymen. Otherwise, if it wasn't controlled by dairymen, as dairymen we would be paying twice—once to buy the product and again when the surplus is used to hold down dairy prices to consumers.

The marketing of milk through the present Federal order system should be continued. It is practical and necessary both from an area economic standpoint and a strategic point of view.

I see myself both as a consumer and as a producer. I would like to see us adopt a plan that continues to make nutritious dairy products affordable to consumers. I feel the National Milk Producers Federation's dairy plan is the best way I have seen so far to achieve this end.

Thank you very much.

Mr. COELHO. Thank you very much. I appreciate your staying within the time limit. Very nice.

Mr. FitzGerald.

STATEMENT OF JOEL FITZGERALD, DAIRY FARMER, WINOOSKI, VT

Mr. FITZGERALD. I am a young dairy farmer. I rent a farm and I buy my feed. I buy my cows on a 100-percent financing only. I rent an apartment here in Winooski and I survive on the charity of my friends, creditors, and family. I love dairy farming, and people say I am an excellent cowman. I can work for somebody else as long as I want, but unlimited hours and weeks without overtime or minimum wage laws, and most important, a lack of profit sharing or employee ownership plan. I have lived it; it's hopeless.

So, I made a plan. I went to FmHA and they said it would work. They knew it worked in Massachusetts, but they said no to my plan because of rules that were in 1983 and renewed in 1984. Now I am doing it the hard way—high interest and no capital. Because I have a market, the stability of that market is now the total issue to farmers in my situation. And I feel that a quota system would ensure that market and I think that—I have not done much research on it—but I think that if we went and talked to some Canadian people, I believe that they do have a quota up there. And I think if we did some work with them and see how their system works, maybe we could figure out something from theirs. And that's about what I feel.

Mr. COELHO. Thank you, Mr. FitzGerald.

Mr. Jeffords.

Mr. JEFFORDS. Thank you, Herb, for your excellent testimony. As we have talked earlier about the diversion program, I think to us that are going to be involved in the program, this is sort of budget compliance insurance which will let us really speak out of credibility to the House and Senate that with that in there the program will not get out of wack as far as the budget goes. So, I appreciate your tolerance, but I understand the diversion of opinion very well.

Perry, also excellent testimony. It is good to hear from someone who has survived all of this with some success, and I know there are a number that have done that. I would just point out for your information that for every dollar we spent of the taxpayers money this year for the reasons you stated in a sense of the efforts of the dairy farmer, that saved if you say that the program has had something to do with the fact of the success of the program; they are paying $8 less than they would for dairy products if it had gone up as the CPI has over the year. So, it is about an 8-to-1 saving if you say a dairy program is successful.

Joel, I am just curious, what rules are you talking about?

Mr. FITZGERALD. They had a list of rules. I think there were 15 of them. And I had a plan to go in and buy everything, buy my feed, rent a barn, and just be small. They went in and they wanted to lend me all the money or nothing at all. They wanted me to go out and buy a farm, buy all my machinery and buy everything and, of course, it does not look good on paper. But if I just bought my cows, brought in my feed, feed is cheap this year, and just bought everything, stayed small and efficient, that I could make it.

It did not show that I could make it on that paper. But, in my way, it could. So, I had to go out, and my cow payments are at 16 percent. If I could get those payments down, I think I would be better off.

Another rule they had is, they do not want a milk factory. You have to have enough land to support your cows. I do not need all that land and why should I have to pay for all that when I am just going to stay a small farmer. You do not have to worry about a milk factory on 40 cows. They had a whole line of them.

Mr. **Jeffords**. As I understand it then, you figured that by having 40 cows and a relatively small area of land, you would not need the capital expenditures, and by buying feed on that and buying your feed, that you could have a profitable enterprise without the capital necessary to buy——

Mr. **FitzGerald**. Right.

Mr. **Jeffords**. And that worked out, fine, but they would not let you do it because it did not require you to borrow enough money from them?

Mr. **FitzGerald**. Right.

Mr. **Jeffords**. OK. It is a little confusing but I understand what you are saying. I mean, a little confusing from why that policy is——

Mr. **FitzGerald**. I cannot understand why they wanted me to go so far into debt that I would not make it. I looked at a farm that was for rent, and the people who were on it before went under. I wanted to rent the farm, and they told me no, because the people before went under and they had all the land, how could I make it like that. I could not understand why they wanted me to borrow $350,000 when all I wanted was $50,000 for cows. I just cannot understand that.

Mr. **Jeffords**. Thank you very much. I appreciate that.

Mr. **Coelho**. You should not be surprised. It sounds like the Government, does it not?

Mr. **FitzGerald**. Yes.

Mr. **Coelho**. Thank you very much. Appreciate all of you testifying.

Mr. Boucher, Mr. King, and Mr. Rog.

Mr. Boucher.

STATEMENT OF GILBERT A. BOUCHER, DAIRY FARMER, HIGHGATE CENTER, VT

Mr. **Boucher**. Thank you, Mr. Chairman.

First of all, I want to thank Congressman Jeffords and Congressman Coelho for taking the time to hear me and the rest of my fellow dairymen here today.

I am a Vermont dairyman from Highgate Center. That is on the Canadian border. Along with my wife and four sons, two of whom are still in school, we operate a 650-acre farm with 300 head of dairy cattle. We have been on this farm for over 20 years.

Before I give my recommendations for changes to our existing system and present farm bill, I would like to give my opinion on what I have observed in the past few years. Then you will better understand why I am making the recommendations that I am making.

First of all, our present system has been successful in providing the American people with a very adequate supply of food and at a price that claims the smallest percentage of the consumer dollar anywhere in the world. This certainly proves to the people in Washington that the family farm system can produce food efficiently and in abundance.

Where the system has failed is in the field of financial compensation for these farmer's products. The proof of that is the large number of financially strained farmers all over the country, especially those in the rich and fertile areas of the Midwest.

Now, why is this? It is because we are always faced with the problem of surplus. Why do we always come up with a surplus even when farmers are going broke? Because our system does not have provisions for two very important things. First, the world market and second, when pricing, it does not tie together three basic commodities in this country. And those commodities are grain, meat, and dairy.

Some people feel that quotas are the answer to our surplus problems. It is my opinion that quotas are not necessary at all. Since we are in a world with so much hunger and starvation, we should instead encourage our farmers to produce all they can produce.

Also, farm products are a natural resource which provides wealth to this country. It is agriculture that has made this country strong in the past and still can today.

So, what are my recommendations here today? One, I recommend that we send the farmers to Washington through our farm organizations and hold hearings before the Committee on Agriculture periodically and establish a farm price for our three basic commodities—grain, meat, and milk. This price would be paid by all the domestic markets without any Government subsidy.

In order to deal with the world market which I mentioned earlier, the Government would have to impose a tax or tariff on all agricultural imports so as to adjust the price to our domestic market. The exports would have to be treated the same, with a subsidy, if necessary, to be able to compete on the world market so we could move our surpluses.

So, subsidized exports is necessary because every other exporting country in the world is subsidizing their agricultural products.

The second recommendation that I would like to make is that when we set these prices on our products that we set the price of grain at 80 percent of parity, the meat at 80 percent of parity, and the milk, because of the apparent surplus which is staring at us and that we have heard so much about today, I would recommend that we set that at 70 percent of parity.

Now, you are going to say, well, he is raising the percent of parity when we are looking at a time of surplus. I am very confident, though, that with these kind of price changes our dairy surplus would soon be under control. What I am saying is that we will raise our meat and our milk—and our grain substantially more than you will the milk. So, therefore, you will be getting your supply back into line.

The result of this whole plan would be a financially sound agriculture, resulting in a stimulated economy, meaning more income in the form of taxes for the Internal Revenue. Therefore, if we have careful spending in Washington, there will be a balanced budget.

In my opinion, and I feel very strongly, that this is the only way that you people will balance the budget in Washington. The old saying goes, "As agriculture goes in this country, so goes the country."

Now, I want to add something else. Last night I was attending a meeting of dairy farmers from different areas in Vermont, and I reviewed the testimony with them which I was going to give today. After considerable discussion, they asked me to attach this extra page to my statement. I will read to you what this says.

They have written, "We, the undersigned, support Gilbert Boucher's testimony." You will find about one dozen signatures of dairy farmers from the counties of Rutland, Addison, Chittenden, Franklin, and Orleans. I am very pleased to include these names to my testimony.

I want to thank you for giving me the opportunity to testify.

[The attachment follows:]

We, the undersigned, support Gilbert Boucher's testimony.

Jacques Couture - Westfield, Vt. 05874
Dale A. Gauvin - Charlotte, Vt 05445
Floyd B. Caldwin - Benson, VT. 05731
Charles Charron - West Haven VT 0574
Bernice M. Charron RFD 1 Fair Haven, Vt 05743
Loren Gilbert Hinesburg Vt. 05461
Wilfrid V. Hanville Franklin Vt.
Bertram Stevens Craftsbury Common VT 05827
Raymond E. Tardif St. Albans Vt 05478
Albert Tisbert Panton V.T. 05491
Rodney B. Gobeit Whiting Vt. 05778
Philip H. Livingston Bristol, Vt 05443
[illegible] Highgate Ctr. Vt 05459

Mr. Coelho. Thank vou very much.

Mr. Kesig.

STATEMENT OF KENYON KESIG, DAIRY FARMER, BENSON, VT

Mr. Kesig. I am Kenyon Kesig from Benson, age 76. I operate a family farm that has been in the family since 1797. I started operating the farm in 1927 with my mother who was an invalid. When she passed away in 1931, I took over and have operated it for 54 years. Due to my age and health, I have incorporated the farm with my long-time employee and his wife so that the farm, Kingston Place, may live in the future and my life's work will not be wasted.

I started farming in the Great Depression of the 1930's, before you were born, Jim. It was hard going then, but I was young. We have produced milk for the Boston and New England markets. There was a small amount taken out for advertising and, later, a little more until it was 11 cents per 100. That was at a time other sections of the milk industry had not started to advertise. The Commodity Credit has purchased a great deal less in the eastern area than others. We produce, but we also market.

The CCC purchased large amounts in the Midwest, and larger amounts in the Far West. They have overproduced and undersold. Then Congress decided that it was costing too much and that we in the East, where we have kept back of our markets, should be taxed so that those who can continue to overproduce. Over 50 years of hard work, and I end up being taxed several thousand dollars a year so that other areas can produce all they want. Is that justice?

Many farms have had to go out of business. Many more have enough reserve so that they made it through. But with this reserve pretty well used up, we will not be able to continue another year.

We have been asked to cut production. All States have cut except California where they have increased. An article in the January 5 Forge Dairyman entitled "Misfacts About the California Dairymen" tells about the abundance dairyland, that they have good markets and that they can only supply about 80 percent of the demand. However, they sell a huge amount to the CCC. Can you explain?

Well, I do not know. I have heard today that some of these creameries and marketers that sell to CCC think that is an easy market. They will take milk, the surplus, and I have to get out and sell. That could be part of the market, part of the reason.

And that is all I have got on that. There is one thing I would add, it has been very interesting today, that the one thing brought out about the taxes. You have got to get your 1985 farm bill together. The family farms throughout the country have been pretty much the backbone of the country. And these large corporate farms, a lot of them have money invested by, well, doctors, lawyers, dentists, and those who want tax shelters, can produce it and lose, and they want to lose. And when the family farms are out, where are we? That is one way, that is, if you control that, it will be a big help to the farm situation.

I am very glad to be asked to come up here and testify.

Mr. **Coelho**. Thank you, Mr. Kesig.

Mr. **Kesig**. Thank you, sir, and thank you, Jim.

Mr. **Coelho**. Appreciate your testimony.

Mr. Rog.

STATEMENT OF CHARLES H. ROG, DAIRY FARMER, MIDDLEBURY, VT

Mr. **Rog**. Appreciate the opportunity to add a little to the testimony already given today. My name is Charlie Rog and I am from Middlebury. I am 25 and have worked my way through college. I presently have 62 milking cows and 50 heifers. I am not asking for any kind of Government loans or even support prices. But what I am asking for is one thing in return for no direct Government help, and that is something be done about dairy imports, imports of some 4 billion pounds of milk equivalent, and imports of millions of pounds of dairy-type processing beef.

Foreign farmers do not have to support our towns, State, and Government by taxes, but I do. I would also ask that tax laws be changed to prevent nonfarmer owner operators from taking tax credits on farm losses and investments in agricultural land.

Thank you.

Mr. **Coelho**. Thank you very much.

Mr. Jeffords.

Mr. **Jeffords**. Thank you. I think we ended up with some excellent testimony. I certainly hope that Kingston Place will survive. I am sure it will. I think you have pointed out very eloquently something which I am glad the chairman heard without wanting to, sometimes I have a tendency to do, lean on California, but I think that the feeling that the farmers in the Northeast have, and I think it is important that it is heard and understood. I know the chairman is—I am sure we will be out in his area and I may get a different perspective when I am out there. But I also do know from working with the California farm groups that they are trying to undo what is a very bad situation and that is, producing for the Government. They are building cheese plants, they are trying to do what they can to rectify what is perceived as a very bad situation. I am sure the chairman will verify that.

As we end up, and it was a very excellent panel to end up with, excellent testimony, and deeply appreciated, I would again like to thank the chairman for coming here. It has been noted his perseverance, sitting here all day long, except for a couple minutes to grab a sandwich, plus having flown all night to get out here. I think of having made three or four across country trips this week, which if any of you have done that, leaves you wondering where you are and why, and probably an emphasis on the why. But I just want to express my most sincere thanks to you, Tony, for coming here. I want to thank you for your excellent services, and to my staff who are here, who have been spending the days at these hearings getting ready. I want to express my thanks to them. They are already outside busily doing things, not only this, but another large endeavor yesterday, so I deeply appreciate their help and thanks, as well as my able assistant, Steve Kerr, for the work that he has done, not only here but in Washington to protect the interests of Vermont.

So, thank you very much, Mr. Chairman. I know there are some others that might like to have their words expressed, but I am going to protect the chairman's health and interest, and everything else, to make sure that he gets out on schedule, and say that I am sure that the chairman will say that the record will be held open for those who want to make a written statement to have it submitted. I will stay behind here to chat with you so that you can express it into my ear directly in case you want assurance that it gets to my attention, but I am going to make sure that the chairman is going to be able to get out of here on schedule, and a very deserved relaxing, I hope, flight back to California, I guess. Thank you again for coming.

Mr. COELHO. Thank you very much, Jim. I appreciate this panel and their testimony. I know, Mr. Kesig, the comments that you have, are shared by others in the Northeast. Obviously, I could get into a discussion with you as one who was born and raised on a dairy farm, as one who milked cows every morning and every night for 7 years and my family went bankrupt in the business. I think that we have some views that we would not necessarily agree with you, but I think we share some of the same concerns about family farms. And I think that the one thing we have got to remember in agriculture, that the more we throw sticks and stones at each other, the more people who want to go against us are going to divide us and conquer in their desires. I think it is time for us to stop worring about what the other guy is getting or not getting and it is time to worry about what we can do as an agricultural community to save those things that we are interested in.

So, that is the way I am pursuing these hearings, and I am trying to find out what the regional differences are, but I am really more concerned about uniting this industry and going to the House floor with a united industry. So, that is the approach I am making and so I am not getting into a discussion with anybody about differences, as much as we should move forward.

I would like to announce, as Jim said, that the record will stay open for 5 days so that anybody who wants to add anything to their testimony or would like to submit a written statement, it will be made a part of the record and I can assure you that myself and Jim will review that testimony, as well as our staff, in the preparation of this farm bill.

I would also like to thank Jim's staff, particularly Steve for his efforts, and to make these hearings a success. We intend to move around the country and get the input as much as possible from all the different farmers themselves. We always hear from the paid lobbyists, but I think at times it is important to get the farmers' input directly.

And, last but not least, I would like to thank Jim for inviting us up here and for the efforts that he has made to make this a worthwhile hearing. I have always been intrigued with the family attitudes and farming attitudes here in Vermont. It is a beautiful State and you have every right to want to preserve your style of agriculture, your attitudes and so forth, and as long as I am chairman of this subcommittee, I intend to try to make that possible.

Again, I want to thank everybody for coming, and the subcommittee hearing is closed.

[Whereupon, at 4:30 p.m., the hearing was adjourned.]

[Material submitted for inclusion in the record follows:]

STATE OF VERMONT
DEPARTMENT OF AGRICULTURE
116 STATE STREET, STATE OFFICE BUILDING
MONTPELIER, VERMONT 05602
(802) 828-2413

TESTIMONY BY
PAUL A. STONE, COMMISSIONER OF AGRICULTURE
BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY

April 13, 1985

I am Paul Stone, Commissioner of Agriculture for the State of Vermont. In addition to my duties as Commissioner, my wife Frances and I, as partners, together with our four children own and operate Stonewood Farm, a 70-cow dairy farm in Orwell, Vermont.

Congressman Tony Coelho, Chairman of this important subcommittee, and Congressmen Tom Lewis and David Martin, welcome to the Green Mountain State. We are indeed pleased that you are showing such a genuine interest in Vermont, and have set aside time to come here to hear our viewpoint. We will be happy to arrange visits to some of our 3200 very fine dairy farms if you have time. It is especially gratifying to me to know that our system of government works so well, and is so responsive and interested in the people's viewpoint that it brings you to the hinterlands to hear us out. We appreciate that we are among the few citizens of the world that are so privileged.

Congressman Jeffords, we are proud that you hold such an important position on the House Agriculture Committee and that you are here again to hear testimony from fellow Vermonters. We thank you for your past efforts to help us solve dairy problems.

Vermont has approximately 3200 dairy farms, 184,000 cows, and produces 2.3 billion pounds of milk annually. We provide about 40% of the needs of New England by exporting 90% of our production. Dairy income is responsible for nearly 90% of Vermont's agricultural income, and we depend on dairy income more than any other state for our agricultural income. New England is self-sufficient in milk because Vermont is willing and able to provide it. Any national policy that prevents this well-established system from functioning or radically alters it will probably be a tremendous disservice to the people of New England.

If you look at consumption of all food in New England you will find we import 80 to 90% of it. This is due to many factors. Our climate and topography limit food production other than milk. Beyond that development pressure has gobbled up tremendous amounts of prime agricultural land. We sincerely hope that further signals coming from Washington will not discourage the one agriculture enterprise we are truly good at - that is producing high quality milk. Our family farms, some held by families for centuries, can compete efficiently, if given the chance. These farms can continue to provide an adequate milk supply for New England for the long term.

The Reagan Administration's proposal for the 1985 farm bill is cruel. They propose phasing out the price support system in two years and to replace it with a direct payment to support farm income. However, the direct payment program is meaningless since target prices are set too low to be any kind of a "safety net." If this plan becomes law, large numbers of Vermont and for that matter other dairy farmers will be driven out of business.

John Block has admitted to not analyzing the impact of phasing out price supports. He does not know how many farmers will be driven out of business nor the effect on milk production. We will be thrown back to the boom and bust cycles, the violent price fluctuations of the 20's and 30's, that the 1949 price support act overcame.

The price support system has been beneficial to both dairy farmers and consumers and should not be dismantled abruptly.

Vermonters are not leaving their destiny entirely to what happens in Washington. We are working regionally to solve problems. The Northeast Association of State Departments of Agriculture is now developing a Northeast policy and will continue to work together to solve problems. We are especially interested in expanding markets and the infrastructure related to marketing for all agricultural products. Another organization, the RCMA (Regional Cooperative Marketing Association), a group made up of milk marketing co-ops and independent dairy farmers, is actively organizing Northeast dairy farmers so that in the future they will be able to demand over-order pricing for milk when appropriate. This is an important regional effort taken on to help ourselves.

LONG-TERM NATIONAL FOOD AND AGRICULTURAL POLICY

I do not foresee the "right" dairy program until we sit down and develop a long-term, long-range national food and agriculture policy. How can we develop sensible dairy legislation or any agricultural legislation without a clear goal in mind? When people undertake business ventures they have established goals and timetables - such as - to make a profit, to enjoy what than do, to meet their personal needs. When the government built dams then the goal was to provide electricity, irrigation, and recreation. When we were forced into [illegible] our very clear goal was to preserve freedom. Unfortunately, we do not have any clear goals or plans for agriculture or the family farm.

Who will be farming in 2000? Family farms as we have known them today or well-financed tax shelter farms? How many farmers should there be? There were 3.7 million dairy farms in 1950, but only 200,000 today. Do we want that trend to continue? Where will agricultural production be located in the future? Concentrated in the Midwest and the West? Or will it even be in the U.S.? Is food production of strategic importance? Should our national goal be the cheapest food possible to mass consumer [illegible]? How should we pay for our food production?

Should consumers pay for the entire cost via the consumer price or should we split the cost so as to be shared between the consumer and the taxpayer? Is soil conservation important? Should our agricultural export policy be determined solely by our attempt to balance trade deficits? If so, are we willing to do so at the expense of family farms and increased soil erosion caused by improper land management caused by the pressure to produce?

I feel the time has come to do some real long-term planning, goal setting, and policy development. I look forward to the day when a government body is considering a law, and the question is asked, will the law fit into our long-term agricultural policy, or comply with it? And we have an answer.

We have an agricultural policy here in Vermont which we plan to submit to the next Session, but there is nothing on the national level. Today there are many organizations working on this policy question, some of them [illegible] set up just for that purpose. Some Vermont organizations are also involved. I hope that in the next few years Congress will pull all the ideas together and adopt a long-term national food and agriculture policy.

Dairy Legislation 1985

I have short- and long-term viewpoints for the 1985 dairy legislation. It is my opinion that we have not made any decisions, set any goals, or developed a policy that will enable us to enact long-term dairy legislation.

During the past six months there has been considerable discussion by Vermont dairy farmers and dairy leaders about dairy legislation. I have yet to find anybody who supports the Reagan Administration's proposal.

The Administration's entire farm bill proposal is predicated on a "market-oriented" approach. Today there are so many constraints and inequities affecting the national and world markets that there is no free market and no world market in which the U.S. family farmer can compete and survive. The Administration's proposal calls for the demise of a very large number of farms in the U.S. and that includes many, too many, in Vermont.

After phasing out price supports the Administration's 1985 Farm Bill proposal calls for target prices and deficiency payments to be the basis of future dairy programs. Unfortunately the proposal is meaningless because the target prices are set far too low to be any kind of a safety net. However, target prices and deficiency payments should be studied seriously for they may have a great deal of merit for future dairy programs.

For many years commodity programs have attempted to meet two conflicting goals: (1) to enhance farm income by providing a floor below which price could not drop, and (2) to set floor prices that would not stimulate production. For dairy, this system worked well from 1949 to 1979. Today we have a different story. Conditions have changed drastically.

Short-Term Solutions

If long-term dairy solutions are not now possible, what short-term solutions are? By short-term I mean something that will last at least two to four years.

We are just completing a very short-term transition program, the paid diversion, which was supposed to bring the tremendous surplus production of 1983 (16 billion pounds) of milk to a manageable level. Unfortunately the program was too short to accomplish all that was needed, and we will still have a surplus in 1985 of an estimated 9.1 billion pounds. The diversion program was successful in that it did reduce milk production and government costs by one billion dollars. The program was paid for entirely by dairy farmers, and they should be proud of that. What other group can say they saved the U.S. government one billion dollars in 1984?

We must recognize that there is still a tremendous capacity to produce milk in this country, that grain prices are favorable and will probably continue to be for several years, that federal income tax policy favors production, that new technologies will increase production dramatically, and that consumption will probably not increase as rapidly as production even with the new and very beneficial national milk promotion effort.

In the absence of long-term national policy, what do we do now? The situation in a nutshell is that there is currently too much production and we are threatened with a tremendous future capacity to produce even more milk given the correct signals, and dairy farm income has been declining for five years. Two other thoughts come to mind. First, a recent New York Times/CBS News poll showed 61% of the public thought it was a bad idea to spend less on farm aid in order to reduce the federal budget deficit.

Secondly, at a recent meeting of the National Association of State Departments of Agriculture, commissioners and secretaries of agriculture overwhelmingly approved a resolution that calls for farm income maintenance and production controls if farmers approve them by referendum.

Some possible ideas for 1985 dairy legislation:

1. Quotas have been suggested and have the appealing possibility of controlling production and stabilizing farm milk prices. They are working successfully in Canada. However, I doubt very seriously that a majority of U.S. dairy farmers would favor quotas after giving them thoughtful study. And, the Reagan Administration has made it clear that they are opposed to any kind of production controls, even the successful diversion program. Many dairy farmers favor an extension of the diversion or creating some method of controlling production to prevent surpluses. However, these programs are not politically possible given the mood of Congress and the President.

2. Target price - deficiency payments. As already mentioned, the Administration has suggested this method but failed to set the target price at a reasonable level. Since the Administration has only one goal in mind when proposing farm legislation, that of cutting the budget, I doubt that they will consent to a target price set high enough to help maintain farm income even if there is a cap on payments to farmers. So, this idea is not a viable option.

3. Radical tinkering - Since production controls are not realistically obtainable this year the only method left to control production and attempt to stabilize farm prices is to cut the price dairy farmers receive in order to get them to cut production. It will be very difficult at best to set the price support level to maintain a floor to prevent family dairy farms

from being driven out of business and at the same time to prevent a stimulation of production nationwide. As already mentioned, I don't think it is possible to accomplish these two goals with one policy given the conditions that exist today. However, if we use this method I hope we adopt a price support program managed by CCC purchases of surplus commodity products.

The report of a Vermont ad hoc dairy leaders' committee follows. For short-term dairy legislation I support this report.

FINAL REPORT OF AD HOC DAIRY FARM BILL COMMITTEE

Meeting in Burlington, Vermont, March 14, 1985*

1. Maintain dairy price support program using CCC purchases to stabilize prices.
2. Fix price support no lower than $11.60 until actual CCC purchases reach 5 billion pounds. At that point the Secretary will be required to institute a dairy specific economic formula adjusted twice annually, based on an index of prices paid by dairy farmers.
3. There should be a supply/demand adjustment to take effect if CCC purchases are predicted above the 3 - 4 billion pound level, at Secretary's discretion and adjusted every six months.
4. No position on standby program.
5. Support present promotion program.

* Meeting called by Vermont Department of Agriculture, Green Mountain Federation, and Vermont Farm Bureau

The committee did not take a position on a standby diversion program that could be enacted and ready if the rest of the program failed to control production. I do support such a standby program because I am not sure the price method of controlling production will work today. Something must be in place, ready to work, in case production increases rapidly and price plummets because of the economic formula and secretarial adjustments. We cannot afford to go through another round in Congress in the next few years similar to what happened over the past six years. It was bad for the image of the dairy industry and extremely demoralizing for farmers.

As legislation is drawn up I hope we can keep in mind two goals:

1. Maintain adequate farm price for milk so that family farms can continue to be profitable businesses.

2. Ensure an adequate supply of milk for the consumer.

Thank you.

(Attachment follows:)

James R. Dickenson

Post April 7-1985

The Farm Crisis: Twaddle and Truth

There is a lot of nonsense about the nation's current agriculture woes being spread around these days, much of it by President Reagan, much by supposedly tough-minded and knowledgeable administration spokesmen such as budget director David Stockman, who seems to believe that the trouble is simply a matter of greedy, stupid farmers being punished with bankruptcy.

Such twaddle only masks the fact that our farm problems go well beyond the widespread suffering and heartbreak of farm families individually and rural society in general.

The farm difficulties have a potentially long-term adverse effect on our future farm productivity, which is why there is an unusually high level of public concern about our agriculture problems. People get uneasy when they sense that agriculture is in serious trouble because they know that the security of the nation's food supply is crucial.

Foremost among the erroneous ideas so blithely being fostered by the free marketeers of the administration is that it is inefficient, marginal and greedy farmers who are being forced into bankruptcy as atonement for their mistakes and sins, and that what will emerge thanks to the magic of the market system is a less efficient farm industry.

Second is that farm efficiency and productivity is in direct proportion to size because of ongoing technological and scientific improvements—that big is good and bigger is better.

In the first case, the opposite is happening. Most of the farmers being forced into bankruptcy are the younger, more aggressive, more progressive and most willing to take risks. Those who are surviving are generally older, less educated, smaller operators who are less productive but have a tolerable debt ratio.

"What we're seeing has little to do with efficiency because we're cutting out farmers on the basis of debt, not efficiency," says Prof. Neil E. Harl of Iowa State University, one of the nation's leading agriculture economists. "We're cutting out the young, aggressive managers who have set the pace in efficiency. And America doesn't have as much excess [agricultural productive] capacity as many think."

This is partly because the strength of the dollar has cut greatly into American farmers' ability to compete in the export markets that were a great source of their prosperity in the 1970s, with the result that surpluses are piling up at home and driving prices down. The strength of the dollar is a "devastating force" working against the farmers. Until it is devalued by 20 or 30 percent we are going to continue to have serious agriculture problems, Harl says.

CHRISTIAN SCIENCE MONITOR

The troubles that are driving the best and brightest out of farming began in the 1970s, when they incurred their now intolerable debt loads buying land and machinery. Some were motivated by greed but many were trying to get a rational hedge against inflation, just as nonfarmers were by indexing wages and income tax brackets.

And many young farmers, who started as most of them do by renting land, were at the normal age to start buying land of their own, which they have to do if they don't want to remain perpetual tenants. Land prices and interest rates were high but inflation kept pushing them up and up, and to many young farmers it seemed that land was moving out of reach, so they grabbed for it.

Iowa State University studies show that the average age of the Midwest farmers who have the lowest debt/asset ratio—10 percent or less of total assets—is 61. The average age of those whose debt/asset ratio is 11 percent to 40 percent is 53. For those in the debt/asset range of 41 percent to 70 percent, the average age is 43. For those 70 percent and over it's 46.

The younger the farmer, the better educated and more productive he is. A farmer's productivity follows a bell curve, according to Harl. It climbs as he builds his operation, is highest between ages 45 and 55, then efficiency and farm size start to fall as he begins to pull back, phase out, turn it over to a son or sons and starts easing into retirement.

There is also the erroneous idea that the demise of a large number of family farmers is inevitable because bigger operations are more productive. In Midwest corn, cattle and hog farming, peak efficiency of scale is reached with about 600 acres. Bigger operations don't enjoy additional economies, and corporate farms particularly start suffering inefficiencies because of problems of management and motivation.

"There are problems of control and coordination, and corporate employees aren't profit-oriented because they don't have a stake in the operation," Harl says. "The Midwest family farm has a high level of management ability and, because of that plus a high level of capital and credit available, corporate farms have been kept out of most states except a few such as California, Hawaii and Florida. States that have limits on farm size don't have a different farm structure than those that don't."

The farmers' worst enemies are public policies such as the huge federal deficits that have the dollar overpriced and contribute to high interest rates and tax provisions that were supposed to help the full-time family farmers. Instead, they have mostly benefited the wealthy who invest in unprofitable operations as tax shelters and encouraged land speculators—"sod busters"—who are paid by the taxpayer to drain wetlands and plow under fragile grasslands to put into crops that are already in surplus. You don't hear of suicides by those operators.

That's why the administration's proposal to do away with price supports eventually is crazy until there is a rational economic environment for the most productive farmers. To throw so many into an open market situation—and bankruptcy—under the burdens they now bear is not only desperately unfair but counter to the national interest.

"In the fall of 1983, we were closer to the bottom of the barrel in grain supplies worldwide because of drought and the PIK program [payment in kind of products to farmers as an incentive to curb production] than most realize, probably the lowest in two decades," Harl says. "It wasn't apparent because of our domestic surpluses due to our fall off in exports because of the dollar."

There's a reason why the hard-ball remarks of Stockman, a former flower child turned Social Darwinist, and the bad Gridiron Club jokes of President Reagan ("I think we should keep the grain and export the farmers") deserve the contempt with which they were received. Neither of them knows what he's talking about.

The writer is a member of The Post's national staff.

SUBMITTED BY DAVID DICKINSON, DAIRY FARMER,
CENTER RUTLAND, VT

Gentlemen:

Thank you for the opportunity to testify this morning. I am a dairy farmer from Center Rutland, Vt. I live and work on a 100 milking cow dairy farm which has been in the family for three generations. The views I will express are typical of many individual dairy farmers.

The 1985 Farm Bill is of supreme importance to the dairy farmer because the agricultural policy which it will establish shall either enable dairy farming as we know it to continue or it will cause many well managed, efficient operations to discontinue. The situation in Vermont, similar to other parts of the nation, is serious. The recently released 1984 Agrifax Dairy Farm Benchmarks which is published by the Champlain Valley Farm Credit Association indicates that dairy farmers who are in the program, experienced net incomes per cow during 1984 that were 18% ~~20%~~ below the net incomes per cow that were maintained by those who were in the District 1 1983 Agrifax Summary. At the same time, the debt per cow on these farms averaged about $2,000 or approximately $200,000 for a 100 cow farm. The interest on this size debt is approximately $20,000 per year. Many farmers have already been forced to hold auctions. This farm paper's back page is filled with auctions of medium and large farms. We are all well aware of the ripple effects throughout the economy that occur when farmers are in trouble.

However, some hold the view that the goal of agricultural policy should not be income enhancement but rather that we should strive for a market-oriented policy. I am here today to urge you to fashion a farm bill that incorporates the sound market-oriented principles of supply management. More specifically, I believe the bill should include a milk diversion plan, a stand-by milk diversion plan or a "the Vermont" ~~"two-tier"~~ pricing system which is structured around the concept of farm bases for production and a price incentive to maintain the base production.

In the face of such compelling factual testimony to the success of the milk diversion program, it is difficult to understand the reason we are not more persistent in pursuing its continuation in some form in the 85 Farm Bill. The milk diversion program was historic in the results that it achieved and because it approached the dairy farmer's dilemma in a fundamentally new and constructive manner. The facts are that the program was completely self-financed by dairy farmers, that it was effective in saving taxpayers over 1 billion dollars through lower levels of purchase by the CCC, and that it reversed the trend of over-production that had existed for the last five years. This last benefit is very significant since no one actually knows where the surplus accumulation would have "peaked-out" without the diversion program.

At the end of 1983, U.S. milk production had been up every month over the same month of the previous year for almost five straight years. In 1984, production was down in every month compared to the previous year. This more balanced supply of milk has precipitated an increase in price to the dairy farmer since the M-W Series, upon which the dairyman is paid, has come into closer alignment with the support price. In this market, the price during the last five months has actually been from 4¢/cwt. to 32¢/cwt. above last year's prices; this despite last years reduction of 50¢ in the support price. For all of 1984, the average net price was only 23¢/cwt. lower than 1983's average net price.

At the same time the farmer was experiencing a relative increase in his prices, the price to consumers was not increased. In fact, retail milk prices during 1984 were below those of four years earlier.

In addition, the milk diversion concept maintains a reserve capacity of milk production which would be instrumental in avoiding milk shortages that have occurred as recently as 1974.

What then are the objections? One obvious problem is that those who have a vested interest in maintaining a surplus condition will apply pressure to return the market to a surplus status by lowering prices. History has demonstrated and economists have stated that in the short-run when support prices are decreased the supply of milk increases. The answer to the surplus manufacturer's problem should not be found through lower incomes for dairy farmers but through a re-design of the pricing structure which eliminates the incentive to establish a surplus.

Some have cited lack of farmer support for the diversion concept. However, dairyman do respond to price and it is my opinion that support has been increasing and will continue to increase as they begin to realize that it is better to invest 50¢ if one receives back a 27¢ increase in price than to accept a 1 dollar reduction in the price with no opportunity of recovery.

Another objection has been that some parts of the country are not in a surplus condition. It would seem therefore, that some mechanism should be added to make provision for this problem. It is my understanding that the National Milk Producers Federation has been exploring some options in this regard.

Undoubtedly, the greatest objection to the diversion plan comes from the administration, not because the program is a "budget-buster" but because the administration apparently feels the concept is not ideologically pure. I suggest that this is the ultimate challenge to the leadership, courage and bargaining abilities of our elected senators and representatives to find "bargaining chips" that can be effective in convincing the administration to accept the notion of supply management as an inevitable solution to the problems of the dairy farmer. It is a curious fact that all other sectors of our economy do market research and produce for the market demand thereby controlling supply but for dairy farmers this idea is deemed unacceptable.

We should at the very least, establish a stand-by diversion plan that would automatically be instituted if the purchases by the CCC again begin to rise beyond a certain level. Certainly, the purported goal of the administration was to lower the cost of the dairy program by reducing CCC purchases. If lower prices are counterproductive in this regard then it would only seem rational to use a plan that has accomplished this goal in the past.

The milk diversion plan has proved that it is workable and practical; the mechanisms for making assessments and returning payments are already in place. If however, a diversion plan is not included in the 1985 Farm Bill, an alternative might be a "base-premium" plan. Under this plan dairy farmers who maintained a specified base production would receive a "premium" while those dairymen who produced beyond their base level would receive the regular market price with no premium. The amount of a farmer's base would be related to the conditions of over-supply within the market. This alternative could be financed in much the same way as the milk diversion program and would be conducted on a voluntary basis. The "base-premium" plan could be administered on a national or regional level. (More details of the "base-premium" plan are attached at the back)

In the absence of any type of supply control, the future for the average dairy farmer is indeed dismal. Production costs during the 1985-1986 period have been projected to increase by 3% to 6%. In addition, if we are subjected to increasingly lower support prices there will very likely be increases in production. Further, complicating the surplus problem will be technological advances in the form of embryo transplants and growth hormones which will boost production. As many experts have predicted, if we choose the exploratory price reduction route it is expected many more will go out of business and nearly all will experience financial hardship until at some point we decide that the social costs and consequences upon the rural economy are too great. Unfortunately, for many that point will be too late.

(Attachment follows.)

BASE PREMIUM PLAN

1. Assessments from 25¢ to 75¢ on all milk within the region to be paid to the Central Pool (CCC on a national level)

2. Amount of assessments contingent upon the level of over-production within the region. Greater over-production would require a larger Central Pool to provide a greater incentive for reduction.

3. Individual could contract with Central Authority (CCC) to maintain a specified level of base production. For example: 95% of a 1982 - 1983 base. Levels of reduction and assessment to be on a sliding scale. All participants to reduce by same percentage.

4. Individual producers would be eligible for market premium if he maintained specified base level or less.

5. Level of premiums to be established by dividing the Central Pool total among the participants on a per cwt. basis. For example: 50¢ per cwt. on 100% of the milk assessment would be divided among let us say a 25% participation (of the total milk) which would equal a $2 per cwt. premium.

6. Premiums could be paid through ASCS County offices.

7. Bases could be sold.

8. Since premiums are paid on milk produced and not for milk that is not produced, those who had no production would receive no premium

9. Premium levels to be sufficient to bring M-W series price up to the level of the announced support price.

TESTIMONY OF

LLOYD "PAT" PATTERSON

Mr. Chairman and other distinguished members of this committee, my name is Lloyd "Pat" Patterson, my family and I operate a true family dairy farm in Danville, Vermont. I also serve as President of Cabot Farmers' Cooperative Creamery, Co., Inc. and as President of Green Mountain Federation of Cooperatives. I have been introduced on several occasions as a successful dairyman and I'd like to visit with you about that. My wife and I purchased our farm 35 years ago without a penny in our pockets. With a lot of hard work, careful planning, and a lot of help from everybody we have been able to maintain that position. If success is measured by building a business, making a living and paying our bills and really enjoying what we are doing then maybe we have achieved a moderate amount of success. But if success is measured by thousands upon thousands of dollars in a bank account or owning a bank, then we have been complete failures.

Why am I telling you all of this? I only want to point out that we have but a few actual cash reserves to carry us through troubled times. In my opinion there are few cash reserves in the agricultural industry in the state of Vermont and in fact in the nation as a whole.

We feel that we do have a considerable amount of equity in our farming operation but it is hard to pay your bills with equity. I read with great concern about our farmer friends in the west and midwest losing their equity and in fact losing their farms. No prudent businessman would attempt to live on equity for any great length of time.

For these reasons I believe that we need a farm program that will provide some long term stability both for the consumer and producer as well. The Price Support Program has worked well for many years and has benefited all concerned. It obviously needs some adjustments but to abolish it would be a complete disaster.

I sincerely believe that the administrations Dairy Program shows a callous disregard for our future food supplies, consumer food costs, farm families and the basic economy of all rural areas of our country. To me their solution is a little bit like cutting your throat because you have a headache.

I want to emphasize to you that the people of Vermont are not asking for continued government purchases at record levels and at record government costs. We recognize our obligation to reduce the cost to the U.S. Government.

For all of these reasons I want to ask you to seriously consider the proposal brought forth by National Milk Producers Federation. I will not expound on the details except to say that it provides for continuation of the Purchase Program, a new dairy pricing index, a Supply Demand Adjuster and Standby Authority for a milk Diversion Program.

I personally would support Standby Authority for a Diversion Program, a Two Tier Pricing System, or some other penalty-Incentive Plan to be used when a substantial adjustment in supply is necessary. I fear going down the road, making more and more milk for a lower and lower price and seeing more and more farmers being forced to leave the farm life that they have learned to love.

I believe that the N.M.P.F. Program would drastically lower the cost to the government of C.C.C. Purchases while at the same time give a farmer the ability to control his own destiny.

In closing I wish to thank you very sincerely for the opportunity to appear before you today and I offer to you my help and my support, however small it may be.

Thank you very much.

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[illegible]

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[illegible]

[illegible]

position of reducing inventories, and our normal commercial customers were not buying, we had no choice but to pass this 480,000 pounds through to the government.

With the additional announced $.06 price to be effective July 1, 1985 not only will our commercial current cheese customers be even more reluctant to purchase cheddar but we will face additional pressures from our value added buyers to cut the price of our aged product. This federal price reduction directly effects the saleability of both our current and aged products. Again, let me illustrate our position with an example. In our business we age between four and seven million pounds of product with the peak amount at the end of the flush period in the spring. The April 1, 1985 reduction of .06 per pound on our present inventory of 5.5 million pounds of cheese represents $330,000 if we reduced our pricing. An additional .06 per pound reduction in July will definitely bring the buyers alive and force across the board pricing adjustments on our aged inventory. Our company can not stand a $660,000 reduction in inventory level. Accordingly, to protect against that, we will move as much product possible to the government as long as Secretary Block continues with his plan to reduce the support price. We realize, as do many national cheese marketers, that this product can be bought back at 10% over support price.

I offer two proposals today:

1. Move the July 1 reduction in the support price to October 1 at which time the MW price will be above the support price. A reduction in the support price at this time will have a minimal impact on the market because the price will be dictated by supply and demand, not the federal support price.

2. Increase the buy back provision to 115% of price support to make it less attractive for the private sector to use the government to age their cheese.

In conclusion, I want to thank you very much for the opportunity to speak here today.

The State of New Hampshire
Department of Agriculture
Office of Commissioner

Prescott Park, Bldg. #1
105 Loudon Road
Concord, New Hampshire 03301

Commissioner: 603-271-3551
271-3552
Promotion: 603-271-3788
271-3552

April 13, 1985

Subcommittee on Livestock, Dairy and Poultry
Committee on Agriculture
c/o The Honorable James M. Jeffords
138 Main Street
Montpelier, VT 05602

Dear Members of the Subcommittee:

I commend you on your willingness to come to the New England region and hear from farmers and the dairy industry relative to the development of legislation that will determine the future direction of dairy production in the Northeast and the rest of the nation.

There is widespread disagreement among producers and handlers in New Hampshire over the exact shape the dairy provisions of the 1985 Farm Bill should take, but I think it is fair and accurate to say that there is general accord on one basic principle: that the features of dairy legislation which have served farmers, processors and consumers reasonably well over the past 35 years need to be preserved in order to assure the economic health of dairy farms in our state, the strength of the processing enterprises and the reliability of the dairy product supply for our region's consumers.

I believe there is unity in New Hampshire in support of retaining the price support system to achieve orderly marketing and a minimal measure of stability to the pricing of milk produced for the commercial trade.

Many factors have come to distort and disrupt the milk price support program in the past few years, and these distortions and disruptions have caused many to blame the support program, when in fact the support program is forced to respond to numerous outside political and economic forces which in its present form it has little flexibility or authority to address.

I support new legislation to preserve the proven strength of the existing dairy support program and also to overcome its shortcomings, and I offer these suggestions:

1. Create a new formula for establishing parity levels -- one that is specific to the dairy industry and recognizes the impact of changing technology and genetic progress.

2. Establish a mechanism that adjusts support levels to changing supply-demand relationships in a timely manner.

3. Provide linkage between the level of Commodity Credit Corporation purchases of dairy products and the support price.

Development of an effective and reasonable national dairy production and marketing policy must also consider matters which aren't apt to be included in the drafting of the 1985 Farm Bill, and I urge the Subcommittee to play an active role in examining and shaping legislation in those areas, including:

1. Deficit reduction, which is of paramount importance in restoring our agricultural trade capability, reducing interest rates and renewing our traditional competitive position globally. New Hampshire farmers recognize the need for significant change in many of the functions of the federal government to achieve substantial reduction of the deficit, but they do not feel agriculture should bear a greater share of the resultant pain than other sectors of the economy.

2. Tax policy, whereunder New Hampshire family farms presently are placed in direct competition with investor-farmers whose return from agricultural activities is derived from the federal tax code rather than production and sale of food and fiber. When tax code transfers accruing to agriculture exceed the taxes collected from agriculture, it is obvious public policy must change, in order to retain those who produce efficiently through hard work and innovation on the farm.

3. Trade negotiations, where many New Hampshire farmers fear dairy product import quotas will be used as bargaining chips to be bartered away in upcoming rounds of trade and tariff talks. Opening American markets to large quantities of European Community, New Zealand and other nations' dairy surpluses in return for concessions in other commodities will profoundly alter our dairy industry.

I will sum up by posing what I think is the fundamental question in analysis of all national agricultural policy options, and that is: On whom do you wish to rely for our nation's food supply, American farmers or foreign farmers? The decisions the Congress and the Administration make in the next few months will largely answer that question.

Respectfully,

Steve Taylor

Stephen H. Taylor
Commissioner

SHT:enr

Testimony by
Robert H. Rumler
April 13, 1985
Burlington, VT

Subcommittee on Livestock, Dairy and Poultry of the
House Committee on Agriculture

Mr. Chairman.....Congressman Jeffords

I would like to express my appreciation to you and Congressman Jeffords for the invitation to testify today as a friend of the Committee. I would also like to express appreciation for the fact that you choose to schedule hearings on this important matter in Vermont. While my orientation and back-ground is primarily national and international in scope, having you in Vermont is of significance to those of us who have lived here for many years.

Although testifying as an individual, I do so out of a background of more than 30 years as the Chief Executive Officer and Chairman of the world's largest dairy cattle breeders' organization with a well distributed national membership of active dairymen of approximately 44,000 and with a multiplicity of interests and involvement in the industry over that period which I assure you is continuing. Also as a member of the Agricultural Policy Advisory Committee for Multilateral Trade Negotiations, since 1975, and as the Chairman of the FAS Cooperator group.....the U. S. Agricultural Export Development Council for a number of years and as the private sector representative on the US/USSR Joint Commission on Agricultural Cooperation until it was allowed to quietly become inactive in the late 1970's.

Permit me therefore, Mr. Chairman, to get into the subject of dairy legislation in the '85 Farm Bill through an international perspective.

In recent testimony before the full Senate Committee on Agriculture, Nutrition and Forestry, Secretary Block stated that he had all the necessary tools needed to expand our agricultural exports. That's highly debatable, given the Administration's proposed legislation which rests heavily on GSM-102 credit guarantees with finder fees and the hope to negotiate access to foreign markets for which we would have to give as much or more than we get in return. It's no secret that dairy was a big chip item on the negotiating table during the Tokyo round of trade negotiations. It'll be an even bigger chip in any such negotiations in the future and is so recogonized by both USDA and STR.

Far more important than generally realized as a critical cornerstone of our domestic dairy policy are the provisions of Section 22 of the Agricultural Adjustment Act of 1933. Above all cost, the capabilities of these provisions must be retained. Free access to our domestic dairy market, negotiated away in whole or in part for whatever reason and for whatever possible gain, would be disastrous to our domestic dairy industry. In the long run, it would be a counterproductive action. Extreme care must be exercised, in whatever legislation is enacted, that this does not happen, either within the dairy Title of the Bill or an overly exuberant approach to an export Title. In fact, the possibility of it happening must be precluded.

Except for the international marketing of breeding cattle, the U. S. dairy industry has not been a factor in the rapid internationalization of American Agriculture. Even more importantly, it will not be a factor in the international market place in the foreseeable future. The exception, of course, will be concessionary sales, PL-480 sales and humanitarian distribution internationally. But this is low volume, generally below market price and, in recent years, taken only from surplus stock.

This then, Mr. Chairman, positions quite specifically the dairy Title for the '85 Farm Bill and the provisions it should contain. It needs to be a domestic program, focused "ivory soap clear" on the domestic market. It cannot and must not be forced into the program mold of other commodities such as wheat, feed grains, cotton and rice, the future of which lies in a competitive position in the world market. Dairy just doesn't fit that mold. While the philosophy of consistency among commodity programs is fine for purposes of administration and budget, consistency for consistency's sake is meaningless. A commodity program must be designed for that specific commodity, for its market and its unique characteristics if it is to be effective in serving the interests of both the producers and the consumers.

Milk and dairy products do not fit the mold of the high volume, export oriented commodities for a variety of unique and special reasons. And this means that dairy does not fit the target price/deficiency payment approach. Neither does it fit the approach of establishing support levels based on a percentage of historic price levels.

What then, for the dairy Title in the '85 Farm Bill?

In June of 1982, I was privileged to present testimony on dairy legislation to this same Subcommittee in Washington. At that time, I recommended an interim emergency program as well as a long-range program for dairy. That long-range proposal, because it was long range, remains valid today. The long-range program embraced two principles.

The first recommendation read like this:

> "A national set-aside or check-off program from each milk producer. The funds so derived should be appropriately and judiciously allocated to programs of

education, research, promotion, advertising and related activities providing all producers collectively the opportunity as well as the obligation to help maintain a viable industry which in the long run would serve the best interest of the American consumer."

Thanks to the efforts of this Committee, your support and especially the efforts of Congressman Jefffords, we now have such legislation. It behooves the dairymen of this nation to continue this fine program through a positive vote in the referendum this coming August. I'm confident they will.

The second recommendation was solidly based on a dairy specific economic formula for the establishment of the level of dairy price support.

Now let me put this principle into fuller context as a specific recommendation for the dairy Title for the '85 Farm Bill as it relates to the dairy price support or a dairy price stabilization program. First, the goal or a role of a national dairy price support program should be the stabilization of the industry, particularly at the producer level, combined with consumer security for an adequate supply of high-quality milk and dairy products. Conversely, the role of the program, per se, should not be income enhancement of dairy farmers.

Three fundamentals would be involved in this plan:

1. The established support level would be maintained, as it is under the present program, through the purchase of hard dairy products by the Commodity Credit Corporation.
2. The basic level of support would be established by a Dairy Specific Economic Formula or Index made up of the indexes of costs of inputs into milk production, balanced as to their relative importance percentage wise, for establishing the cost only of milk production.
3. Provide for a supply/demand adjuster or adjustment procedure to the level of support generated by the economic formula in 2 above. Preferably this adjustment to be operated by the Secretary of Agriculture within established parameters based on projected CCC purchase.

Note: Consideration of support level adjustment should be made no less frequently than every six months.

As to the characteristics of a Dairy Specific Economic Formula, and related procedures, I believe the following should prevail to achieve the objectives of price stabilization and assure an adequate supply of milk:

1. Automatically reflect changes in factors influencing longer-term supply-demand balance for milk, including

only the elements involved in the cost of producing milk.

2. Reflect changes in productivity. (Per cow basis)

3. Reflect alternative opportunities in agriculture as well as general economic conditions.

4. Be subject to upward or downward adjustment based on level of CCC price support removals or projected removals, preferably the latter.

5. Reflect as accurately as possible the appropriate level of price support, but with opportunity for adjustment by Secretary of Agriculture for reasons which may not be fully reflected by the formula. Support prices should not be set above long-term equilibrium levels. And should operate no more than 30% of the time, long-run.

6. Provide for periodic updating, no less than semi-annually.

7. Simple and understandable as possible.

It is important to keep in mind that the present procedure for milk price support through purchase of dairy products by CCC is well suited to the assuring of adequate supplies of milk, stabilizing milk prices and providing a price floor. It is not suited to producer price enhancement or maintaining milk prices in excess of longer-term supply-demand conditions. For producer price enhancement or income assurances, some type of supply management or quota program is necessary.

I thank you Mr. Chairman for the opportunity to testify before this Committee once again. I ask that I might have the privilege of revising and extending my remarks for the record.

If there are questions, I will be pleased to answer them.

Thank you!

Addendum: "The Dairy Title"

(Attachments follow:)

HOLSTEIN WORLD
February 22, 1985

THE ADMINISTRATION'S '85 Farm Bill.......

"The Dairy Title"

By Robert H. Rumler

Official unveiling of the Administration's '85 Farm Bill took place late in February when it was sent to Congress. Confidential copies which were leaked all over the place had been made available to members of Congress a month earlier, but were subject to revision. And fine tuning took place up to the last minute.

It was received with mixed emotions on "The Hill" with most reactions being negative for a variety of reasons, some of which are budget oriented. General consensus is that there will be a lot more than fine tuning before the Administration's Bill or portions of it or Congressional inputs and recommendations from the private sector result in an omnibus farm bill that becomes law.

There are nineteen sections or Titles in the Administration's Bill. Reproduced here is Title VII on Dairy, the gross "Payment Limitation" section in Title XVIII and Title XIX dealing with the effective date. It proposes that authority under the bill extend for fifteen years, through the end of this century. In a sense, the fifteen-year period replaces the permanent legislation of the 30's and 40's to which many of the programs would revert if no action is taken on specific commodities on or before October 1, 1985 when current legislation expires.

RADICAL CHANGE PROPOSED

The most radical change in philosophy of program is found in the dairy Title. But this was not unexpected. Possible exception is the honey program which is wiped out entirely.

The Administration's Bill would phase out at the end of two years the long-established dairy price support program under which dairy products are purchased in the open market by the Commodity Credit Corp. at prices designed to hold the price of milk at the established support level. Price supports for manufactured dairy products first went into effect April 3, 1941. The basic program has remained unchanged since that time, although some details have been modified.

Replacing it would be a target price/deficiency payment program operating on the same principle as similar programs in recent years for feed grains and wheat. Under it, the government would purchase no products and the CCC purchase program would cease to operate. Rather, all products would go on the open market or be inventoried and held for later movement through the market at any point in the marketing chain. Producers would receive direct payments from the government for the difference between the market price and the target price when the market price was lower, but only in amounts up to $10,000 per year. After a few years, it is projected that the market price would be well above the target price so that no deficiency payment would be required.

IMPORTANT CONSIDERATIONS/Looking at the proposed schedule for the establishment of dairy target prices and the Administrations projected dollar levels for both targets and season's average prices in the accompanying chart, it is rather convincing that the government will be out of the dairy price support and stabilization business well in advance of the '91 fiscal year. If so, it will have achieved a completely market oriented dairy industry. Philosophically, this may be desirable. Question is, what shape would the dairy industry be in ~~which~~ when such a position is achieved? Would consumers be assured an adequate supply of milk at a reasonable price on a continuing basis? Would production levels tend to make wider cyclical swings? How well would the meager deficiency payment limitation buffer the mid-term price drop for manufactured grade milk and related Class I. Milk? Who would benefit from the deficiency payments for it is not yet clear whether that limitation refers to each separate commodity under a deficiency payment program or a total for a marketing year taking into consideration all programs in which a dairyman/crop farmer might be involved.

Aside from the numbers....dollars and percentages in the proposal, which can be changed, the bigger question is whether or not a target price/deficiency payment program is well suited to the dairy industry in this country as a means of stabilizing it for consumers as well as producers. There are reasons to believe that it is not. And these reasons must be surfaced clearly and distinctly in the upcoming debate.

Another Administration goal is to develop consistency among its commodity programs. But consistency for its sake alone is meaningless when viewed in terms of effectiveness. If there are basic and fundamental differences among commodities, these must be recognized. The perishability of milk, its daily production schedule, its regular flow to the market, its potential for wide seasonal production swings to mention only a few, tend to take it out of the same class as commodities that are produced on an annual basis and storable for reasonable periods in their original state. And so, it is important to design programs, if there are to be any at all, to conform with the commodity and its real as well as potential market, domestic or international, in the interest of both consumer and producer.

Before making a revolutionary, irreversible change in our dairy program, we should take another look at what got the industry into its present fix of surplus production and too-high cost to the Federal Treasury. In a very real sense, it was not the program of a price support operated through CCC purchases of surplus production via hard dairy products. Hopefully not ~~in too simple terms~~ over simplified, it was the manner in which the program was operated or permitted to operate, particularly in setting the support level. The support price was too high for too long and it was out of sync with alternative agricultural enterprises. It is not surprising that the level of support from time to time had political overtones in addition to lacking sensitivity to the economics of the marketplace, supply/demand relationships and factor of production input and unit output. To the extent that this is a valid assessment, it is correctable without pouring the baby down the drain with the wash water.

SUPPORTS PART-TIME

Support levels properly structured and sufficiently sensitive should not operate under present procedures for more than one-third of the time when viewed over a span of one or two years. This is when the program is working to "stabilize the industry and assure consumers an adequate supply of wholesome, nutritious milk," and not as a means of income enhancement to the producer. It is now generally accepted that the latter is not the true role of a dairy price support program. Over the past five years, at least, the dairy price support program has operated 100% of the time and therefore, must be conceded as having served as an income enhancement program, albeit that some producers may not have been getting "cost of production" returns. Herein the name of the game is efficiency, economically based.

THE PROPOSED TASK FORCE

The dairy Title in the Administration's '85 Farm Bill calls for the appointment of a ten-member Task Force to study most of the involvement of the Federal government in the dairy industry related to pricing and marketing aside from the support program or a replacement for it. Such studies, like research, should be viewed objectively in the interest of additional knowledge. At the same time, a look behind the scenes for the motiviation for such a study never hurts.

The '81 omnibus Farm Bill called upon the USDA to submit to Congress a dairy program operations report covering virtually all of the topics in the list set forth for the proposed Task Force. That report was released by the Department in compliance with the law in January 1984. Before its release, however, it was downgraded from a Departmental Report to a Staff Report. As such, its conclusions as well as observations and any recommendations it contained placed no obligation upon the Department as Being representative of its position.

INTERNATIONAL IMPLICATIONS

There is yet another Title in the Administration's Bill that is of special interest to the dairy industry. This relates in general terms to policy and position on exports and imports. A look at this in a subsequent issue should prove of interest.

ADMINISTRATION'S PROJECTIONS: Target Prices, Support Levels & Season's Average Prices
(Transition from Current Legislation to Target Price/Defeciency Payment Plan)

Milk Under Title VII of Bill	1984	1985	1986	1987	1988	1989	1990
Target Price ($/cwt)	dna[1/]	dna	dna	10.48	8.96	7.92	7.12
Support Level ($/cwt)	12.23	11.60	11.40	-0-	-0-	-0-	-0-
Manufacture Grade Season Ave. ($/cwt)	12.15	12.30/ 12.60	12.10/ 12.50	9.75/ 10.25	10.00/ 10.75	10.50/ 11.75	11.25/ 12.00
Net CCC Outlay (million dollars)	1520	1595	1368	1167	1503	-0-	-0-
Net CCC Outlay Current Program (million dollars)	1502	1595	1368	1175	1055	1225	1240

[1/] dna: does not apply

DAIRY SECTION: ADMINISTRATION'S '85 FARM BILL

Title VII: DAIRY

For marketing years 1985/86 and 1986/87, establish the support price for manufacturing grade milk as follows:

1) On October 1, 1985 the support price will be $11.60 cwt., except ~~for~~ on April 1, 1986, if the Secretary of Agriculture estimates that CCC purchases of dairy products for the following 12 months are projected to exceed 5 billion pounds milk equivalent, the Secretary may adjust the support price to $11.10/cwt.

2) On April 1, 1987, if the Secretary estimates that CCC purchases of dairy products for the following 12 months are projected to exceed 5 billion pounds milk equivalent, the Secretary may adjust the support price to $10.60/cwt.

For marketing year 1987/88 and thereafter, establish a direct payment program where the target prices would be calculated on ~~an~~ an annual declining percentage of the three-year moving average of U. S. manufacturing grade milk prices at the following levels:

Marketing Year	Target Price*
	--Dollars per Hundredweight--
	--As percent of 3-year moving average of U. S. manufactured milk prices**--
1987/88	90%
1988/89	85%
1989/90	80%
1990/91	75%
Thereafter	75%

---

*Payment rate based on national average market price received by farmers for marketing year.

**or, $11.60, whichever is lower.

Require the Secretary of Agriculture to appoint a task force to review the Federal Milk Marketing Order Program. The task force shall consist of three producers, three processors (two from cooperatives and one independent processor), two agricultural economists from the Land Grant Universities, and two representatives from consumer organizations.

The task force shall:

1. Study the need for Federal Milk Marketing Orders and clarify their purpose;

2. Assess the impacts of the existing Federal Milk Marketing Order Program on milk producers, processors, distributors and consumers;

3. Identify, describe and evaluate feasible alternatives to the existing program, including analyzing the costs and benefits from commercial reconstitution of milk for fluid use; and

4. Recommend regulatory and legislative changes as deemed appropriate and implement by no later than September 30, 1990.

Repeal authorities under permanent legislation as they affect dairy.

OTHER TITLES WHICH APPLY DIRECTLY TO DAIRY

Title XVIII: Miscellaneous Provisions*

Payment Limitation

Establish a payment limitation per person, where applicable, for wheat, feedgrains, cotton, rice, dairy, peanuts, tobacco, sugar and wool and mohair at the following levels: 1986 crop year-$20,000; 1987 crop year-$15,000; 1988 crop year-$10,000; and for the 1989 crop year and thereafter-$10,000.

~~Loan Limitation~~

~~Establish a $200,000 limitation on the amount of outstanding nonrecourse loans, where applicable, that can be made to each producer during each crop year~~.

~~Corn Marketing Year~~

~~Change current marketing year for corn from October 1 to September 30 to September 1 to August 31~~.

* Other items under this Title deal with "loan limitations" and "corn marketing year" and are not directly applicable to dairy.

Title XIX: Effective Date

The effective date of this legislation is October 1, 1985. Authority under this legislation will expire September 30, 2000.

Presented by: Alexander MacKinnon, Dairy
Farmer, Gouverneur, NY

I am a dairy farmer from Gouverneur, New York. On our 400 acre dairy, we maintain 160 head of Holstein dairy cows and milk approximately 73.

I would first like to call to your attention the graphs located on page 3.

The first graph labeled "Blend Price", shows the blend price of milk paid in our area. The price actually paid to us is adjusted downward to compensate for the mileage between our farm and the plant buying our milk. This graph covers all of 1983, 1984 and January and February of 1985. Please note that the price paid in October of 1984 exceeded the blend price of October 1983, this trend has continued to date.

The second graph labeled "Production", shows milk produced in New York State for all of 1983 and 1984. The source of this information is the New York Crop Reporting Service Report for March of 1985. Please note that the production in April of 1984 was less than April 1983, this trend has continued to date.

Now, how does all of this affect the difficult task ahead for Congress in trying to piece together the Dairy portion of the 1985 Farm Bill?

First, milk production in New York State was down from a year earlier, more than would be expected from the diversion program. The diversion program was responsible for less than half the total 1984 New York production drop. This means that farmers are responding to the need to reduce supplies even though the milk to grain ratio is favorable to the producer. (This condition usually means higher milk production.)

Second, the price of milk is responding to shorter supplies by increasing to above 1983 levels and this trend has continued into the first two months of 1985. This has happened even though the support price was reduced during the period by $.50.

Keeping this in mind, it would seem to me that the best plan for Congress to implement would be to gradually lower the support price in $.50 increments but no more than once annually.

With a strong market in the New York area, adequate to short milk supplies and no dependence on government purchases, support price reductions would be buffered by strong market conditions. This should increase Class I utilization and have minimal influence on blend prices.

It would also seem that a gradual reduction in support prices would discourage people from attempting to get into the business and encourage those who are marginally profitable or losing money to get out. This would help over several years to ease supplies without unduly hurting dairymen who are strong managers and maintain sound operations.

It is unlikely that dairy farmers from around the country will be able to agree on any one plan for surplus reduction. In the final analysis, Congress must decide.

I would hope that the plan adopted would have a gradual reduction in support prices which would be of lesser impact on dairymen in areas with strong markets and greater impact on those relying on government purchases. While this may seem unfair and perhaps politically unpleasant, there is no nice way of encouraging fewer farmers and less cows.

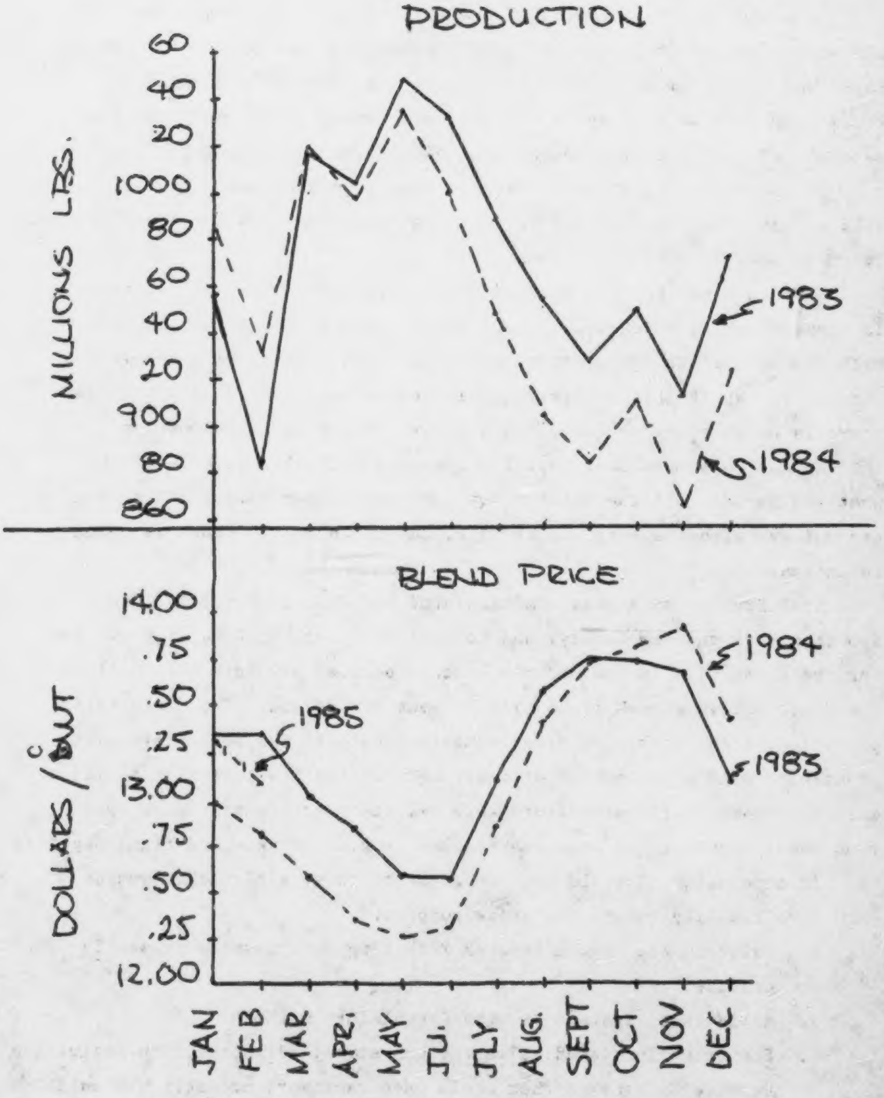
We must also remember that the consumer will also be affected by what you decide. If the Greater New York-New Jersey Metropolitan area can not get adequate supplies of milk, the price in the store is bound to increase.

In February the Market Administrator for Federal Marketing Order Two (New York and New Jersey) had to implement the "Milk Call" provision for the first time in the order's history because New York City dealers could not obtain enough fluid milk to meet the demand. The "Milk Call" provision of the marketing order mandates that all New York State milk processors send a percentage of their milk to the New York City fluid market. Upstate milk processors were reluctant to transfer milk away from their manufactured products because of good markets and tight supplies.

In conclusion, I would urge Congress to adopt a plan that would:

1. Gradually reduce the price support.
2. Maintain the strong Federal Marketing Order system presently utilized.
3. Avoid quota systems or other regulatory methods.
4. Encourage increased sales through strong milk promotion activities.
5. Provide safeguards that would encourage more production should supplies fall short of demand.

(Attachment follows:)


PRODUCTION
MILLIONS LBS.
60
40
20
1000
80
60
40
20
900
80
860
1983
1984
BLEND PRICE
DOLLARS / CWT
14.00
.75
.50
.25
13.00
.75
.50
.25
12.00
1985
1984
1983
JAN
FEB
MAR
APR.
MAY
JU.
JLY
AUG.
SEPT
OCT
NOV
DEC

Testimony
Adrian E. Wadsworth
Star Route Box 60
North Turner, Maine 04266
207-224-8240

Congressman Jeffords, Congressman Coelho and Congressman Lewis I thank you for this opportunity to testify before you.

I am Adrian Wadsworth, I am a dairy farmer, also I am a Director at Large of Agri-Mark Inc. My wife and I farm as partners in a dairy operation in North Turner Maine. We currently have a milking herd of 170 holsteins with approximately as many replacements. This year we will farm 450 acres of tillable ground. To get where we are today has been a long and gradual process. I was born and raised on a family farm in Connecticut, that farm was sold in 1972 beecause of the dissolution of a family partnership. In 1976 while looking for a farm to rent or buy in southern New England we found an opportunity in Maine and decided to pursue it. For two years I worked for the past owner of our farm, in 1978 we purchased the animals, rented the barns and the pasture land, and contracted with the owner to raise our feed. In 1980 we were able to buy the barns and land on the home farm and negotiate a purchase arrangement for the remaining tillable acres. Finally in 1983 we took over the job of raising our feed and with that the iventory of equipment necessary for doing the job. This completed the purchase of the farm on paper, all that remains is to pay for it. Twelve years ago we started out with little but a dream. With hard work and the faith of a few individuals we have managed to advance to our present position.

I tell this story not gain admiration or sympathy but to show that it was possible for two people to start out with basically nothing, and with little backing manage to get started in farming. At one time this was a fairly common story, not today. This was made possible by the realitive stability provided dairying by the federal support program. For with the large capital demands of dairy farming today it is necessary to have this stability in order to gain financing. There is no way that we could repeat what we have done with the situation what it is today. Indeed it is now a challenge for many in dairying to get financing from year to year to say nothing of long range planning.

Perhaps the saddest part of all this is that this is occuring in the richest nation on earth. A country where 2% of the population provides for the needs of the other 98% and in addition provides this country with a large percentage of its exports. According to USDA figures there are less than 900,000 farms in this country with sales of 40,000 dollars or more, and less than 186,000 dairy farms with sales or 40,000 dollars or more. Indeed a third of the

679,000 family sized farms in the U.S., which owe half of the farm debt, are experiencing financial stress. According to Farm Journal and substantiated by USDA," about 43,000 farmers owe more than their assets, about 50,000 are in extreme distress with debt to asset ratios over 70% and 136,000 have serious problems shouldering debts of 40% to 70%. That's according to the just released Agriculture Information Bulletin 490." As a citizen this is a sobering thought, for in actuality the main source of this nations food and fiber comes from a frightfully small base. As a farmer I am concerned because this ever shrinking number means that the size of farms continues to increase, increasing costs, overhead and thereby putting further demands on cashflow. Also this growth in size tends to lead to an erosion of our support industries. There was a time when farming was an equity based buisness, those days are gone, today farming is a cash flow buisness, with all the inherant risks.

It is my belief that when federal food poilicy was written after WWII it was written for the consumer not just for the farmer. Programs such as the school lunch program came about because of the large number of young men made 4-F during WWII for reasons caused by malnutrition. This is just one example and I certainly don't wish to debate the right or wrong of those policies, I only point out that many times so called farm programs have really been social programs. I understand that last year the average family in this country expended appproximately, 15% of their disposable income to purchase food, I believe that this is the lowest figure in recent history. We eat for less than any other nation on earth, however, maybe we should include our subsidies when computing our food dollar expenditures. Perhaps then we would have a clearer picture of the true cost of food to the nation. I believe that it would still be a bargain, even in years such as 83 when we had the PIK program we would find that compared to most nations that we were well off.

If the administration has its way, then within a few years, the public will have the advantage of paying for the cost of agricultural subsidies at the grocery store, instead of through their tax bill. The cost of reasearch, conservation, land improvement and the maintenence of adequate food upplies must be paid by someone, it stands to reason that eventually these costs will be passed on to the consumer by a market oriented agriculture. It will be interesting to see the reactions of consumers, probably upper income people will not complain too much but those in the lower income brackets and those on fixed income, who pay little or no taxes now will shoulder the brunt of burden. Maybe then farm policy will be put in the proper light, the people of this country exspect adequate food, in order to acheive that there must at times be an over supply, if the government wishes to see the people fed then it must inact farm policy that accomplishes an adequate supply at the least cost to the taxpayers.

The dairy program we have today has been in place for 40 years, until the last few years it has worked well. Dairying didn't get in its present position overnight and it was not the program itself that got us here. It was the misuse of the program that landed us in our present predictament, countinually raising the support price without justification got us here. This points to a need to remove political considerations from the establishing of agricultural programs, and especially from the support of commodity prices.

In review, I encourage the continuation of marketing orders and federal supports for dairy. I urge the adoption of a revised dairy parity formula specific for dairy complete with built in adjusters for cost of production, along the lines of that proposed by the National Milk Producers Federation. In order to insure that we not repeat the situation of the past few years, I would urge the inclusion of supply demand adjusters that would function automatically in response to supply and demand. Personally, I would also favor a standby program, such as the recently ended diversion program, to be funded by dairymen, that would automatically kick in if production passed some pre set figure. On this last point, I think that it is desirable but not absolutely necessary, I would be satisfied if the first three points could be enacted.

As a young farmer, highly leveraged, I can stand only so much, if under present conditions the support price of milk was to drop much below 11 dollars the future of my farm would be questionable. Indeed the wrong signals from Washington could dry up credit so that there would be no option but to sell at distress prices. In planning policy this country must not deal just with present problems but also must look to the future. Who will be raising this nations food and fiber in 25 years, how do we attract young people back to the farm, certainly not with todays scenario.

There have been many programs put forward. All seem to agree that support prices must be set at market clearing levels, the disagreement comes as how to do that. As far as dairy is concerned I can answer in one word, SLOWLY. If there is not a consensus on the 85 Farm Bill and it in fact becomes the 86 Farm Bill, then I would urge you leave the support price pegged at 11.60. Hopefully that would lead us to continue to get our house in order. I like many am in favor of less government, however it would seem to me that the time for government to back out is not when agriculture is on the ropes, but instead when agriculture is strong and able to afford to make the change.

In closing I would like to mention some things that may be as important to us as a fair farm bill. I urge you to pass a budget this year and put an end to continuing resolutions on the budget. Please examine tax policy, especially shelters and their abuse, investors have done much damage to certain sectors of agriculture. Lastly be wary of the administrations move to curtail certain agricultural agencies and their functions. It is fine to want to make agriculture more market oriented, however civilization is based on the top six inches of soil, and society has a stake in this nations agricultural land base, its preservation and improvement, we should not be so short sighted as to abandon involvement with this our most important natural resource.

I thank you for allowing me to testify and state my views, if there are any questions on what I have said I will do my best to answer them.

MAINE DAIRY FARMING
A CHALLENGE TO SURVIVE

GOOD AFTERNOON. I'M WALTER E. WHITCOMB A MEMBER OF A FAMILY THAT OWNS AND OPERATES A 110 COW JERSEY FARM NEAR BELFAST, MAINE. I APPRECIATE THE OPPORTUNITY, TODAY, TO CONTRIBUTE MY OBSERVATIONS TO THE CONFUSION SURROUNDING THE DAIRY POLICY.

WE DAIRYMEN ARE EXPERIENCING DIAMETRICALLY OPPOSITE AND CONFLICTING SIGNALS IN THE MILK INDUSTRY. WE ARE TOLD THAT THE NATION MUST HAVE LESS MILK, BUT THE GOVERNMENT IS HELPING FARMERS SO THEY WILL NOT GO OUT OF BUSINESS. WE REPORTEDLY ARE NOT MAKING ENOUGH MONEY TO MAKE A LIVING, BUT APPARENTLY ARE MAKING TOO MUCH MONEY TO DISCOURAGE PEOPLE FROM ENTERING THE BUSINESS. SOME ARE PAID TO NOT PRODUCE MILK, WHILE THE TRUCKS OF SIX DIFFERENT MILK PROCESSING FIRMS CRISS-CROSS OUR COUNTY, SEVERAL OF THESE COMPANIES ACTIVELY SEEKING MORE MILK.

I, FOR ONE,AND OTHER DAIRYMEN I KNOW, SEEM TO BE PESSIMISTIC AND OPTIMISTIC AT THE SAME TIME. OUR P. C. A. BANKER TELLS US THAT THE VAST MAJORITY OF HIS 125 DAIRY FARM ACCOUNTS ARE FINANCIALLY SOLVENT, YET HE KNOWS HIS FARMERS ARE DISCOURAGED OVER CONSTANTLY DECLINING PRICES. FEDERAL TAKE OUTS IN COMBINATION WITH AN IN-STATE REBLEND OF PRICES HAS CAUSED A SUBSTANTIAL DROP IN INCOME FOR SEVERAL HUNDRED OF MAINE'S DAIRYMEN.

FLYING IN THE FACE OF HARD TIMES AND PRICE REDUCTIONS, WE'RE WATCHING A STRANGE PHENOMENA IN OUR IMMEDIATE AREA AND THE NUMBERS INDICATE THAT THE SAME IS OCCURRING THROUGHOUT THE STATE. NEW DAIRY FARMS ARE STARTING AND OLDER, SMALLER FARMS ARE GROWING DESPITE PREDICTIONS OF DOOMSDAY.

OUR EXTENSION DAIRY SPECIALIST CAME TO MAINE FROM VERMONT A FEW YEARS AGO AMID FORECASTS THAT MAINE DAIRY FARMS THEN NUMBERING 1,200 WOULD ONLY BE 500 IN NUMBER BY 1985. MAINE STILL HAS APPROXIMATELY 1,000 DAIRY FARMS AND THAT SPECIALIST STILL HAS A JOB.

ON OUR FARM WE ARE ADJUSTING TO THE TIMES BY USING OUR RESOURCES MORE SKILLFULLY. HOMEGROWN FORAGES ARE BECOMING MORE AND MORE VALUABLE IN OUR FARM FEEDING PLAN. A FUNNY THING HAPPENED TO MANY OF US AS WE TRIED TO SAVE MONEY BY FEEDING LESS IMPORTED GRAIN. WE'VE CUT THE AMOUNT OF FEED GRAINS WITHOUT HURTING MILK PRODUCTION. SEVERAL PEOPLE TRIED TO SATISFY DIVERSION REQUIREMENTS BY FEEDING LESS GRAIN, BUT IT DIDN'T WORK. OUR HOME GROWN FORAGES ARE BETTER THAN WE THOUGHT.

THE ECONOMIC STRESS HAS FORCED US TO BE MORE EFFICIENT, REDUCED THE COST OF PURCHASED GRAINS AND MADE A PERMANENT IMPROVEMENT IN THE INDUSTRY. YEARS OF EXTENSION WORKSHOPS WERE NEVER ABLE TO WEAN US AWAY FROM DEPENDENCE ON GRAIN YET AN ECONOMIC INCENTIVE ACCOMPLISHED THE JOB QUICKLY.

SPEAKING IN THIS REGARD THE DEAN OF MAINE'S COLLEGE OF AGRICULTURE THINKS THAT THE DAIRY INDUSTRY HAS A TREMENDOUS OPPORTUNITY IN MAINE. HE RECITES THE STATES AGRICULTURAL ASSETS OF INEXPENSIVE AND AVAILABLE FARMLAND, ADEQUATE CLIMATE FOR FORAGE PRODUCTION, AMPLE WATER SUPPLY, CLOSE PROXIMITY TO MAJOR METROPOLITAN AREA, ETC. HE DOES ADMIT THAT AN IMMEDIATE CONCERN IS TO KEEP A "CRITICAL MASS"; TO KEEP ENOUGH FARMS IN AN AREA TO SUPPORT THE NECESSARY SUPPORT BUSINESSES.

AS OUR COWS HAVE INDIVIDUALLY BEEN BRED TO PRODUCE MORE MILK AND THE FAMILY HAS LEARNED TO EFFICIENTLY MANAGE AN EVER LARGER PRODUCTION UNIT WE INCREASE IN SIZE. OUR BANKER SAYS THE CONCENTRATION OF DAIRYING TO LARGER AND MORE EFFICIENT OPERATIONS IS INEVITABLE FROM HIS PERSPECTIVE AS HE COMPARES THE CASH FLOW, INVESTMENT PER COW AND ABILITY FOR CAPITAL OUTLAY IN LARGER VERSUS SMALLER UNITS.

IN CONTRAST, A NEARBY DAIRYMAN TOOK A LONG HARD LOOK AT THE FACTS AND WENT ANOTHER WAY AS HE AND HIS SON MADE DECISIONS WHEN THEY PREPARED THE BUSINESS FOR HIS SON TO ENTER. THEY COULD HAVE FOLLOWED THE CONSTANT ENCOURAGEMENT TO GET BIGGER AND MORE IN DEBT, BUT THEY INSTEAD DIVERSIFIED. THESE FARMERS TOOK DECLINING CONSUMPTION, INCREASING MILK SUPPLIES, HIGH GRAIN PRICES AND OTHER FACTORS INTO ACCOUNT WHEN THEY CHOSE TO STAY THE SAME SIZE AND USE SOME OF THE LAND FOR A CASH CROP.

MOST OF US DAIRYMEN INDIVIDUALLY DO NOT ANTICIPATE IN THAT

MANNER. WE CHOOSE TO REACT. GIVEN THE ALTERNATIVE OF LOW PRICES MOST OF US FALL ONE OF TWO WAYS; WE EITHER GET OUT OF BUSINESS OR WE GROW LARGER AND MORE EFFICIENT AND PRODUCE MORE MILK. NO MATTER WHAT THE GOVERNMENT MILK PROGRAM, IT MUST REMEMBER THAT *THE THING WE DO REACT TO IS PRICE*.

WE ARE, ON OUR FARM, LIKE MOST OTHERS. EVEN THOUGH OUR COWS PRODUCE TWICE AS MUCH MILK AS THEY DID A FEW YEARS AGO, WE ARE NOT PREPARED TO REDUCE THE HERD SIZE BY HALF TO MAINTAIN THE SAME MILK FLOW. WE ARE, HOWEVER, INSTANTLY READY TO BLAME EVERY OTHER REGION IN THE COUNTRY FOR OVERPRODUCTION AND WE DO HOPE *THEY* FIND SUCCESS IN ANOTHER OCCUPATION. HIGHER GRAIN AND BEEF PRICES WOULD ENCOURAGE THOSE FOLKS TO DO SOMETHING ELSE WE LIKE TO THINK.

THERE ARE ENCOURAGING SIGNS AROUND OUR AREA. MORE FARMERS ARE PLANNING LAND IMPROVEMENTS AND SOIL CONSERVATION WORK THAN LAST YEAR. FARMERS ABOUT TO GO OUT OF BUSINESS DON'T INVEST IN THEIR LAND. IN FACT, OUR FARM ACCOUNTING SUMMARY SHOWS THAT NEARLY 50% OF THE FARMS, ON THAT ACCOUNTING SYSTEM, FARMS OUR SIZE, WERE BETTER OFF LAST YEAR THAN THE YEAR BEFORE.

ANY OPTIMISTIC OUTLOOK IS TEMPERED WITH THE REALIZATION THAT SOME YOUNG, CAPABLE DAIRYMEN FACE FINANCIAL RUIN NOT ENTIRELY OF THEIR OWN MAKING. DEBT LOADS OF $2,000 PER COW STRETCH

THE CAPABILITY OF THE MILK MARKET TO REPAY THE LOAN. DEBTS OF $3,000 PER COW OR MORE ARE BIG QUESTION MARKS IN TODAYS ECONOMY.

Fm H. A. LIMITED RESOURCE AND SET ASIDE PROGRAMS WILL, RIGHTLY OR WRONGLY, KEEP SOME OF THESE HIGH DEBT CLIENTS OPERATING.

WE ARE UNDER NO ILLUSIONS. ALL DAIRYMEN HAVE BEEN AFFECTED TO SOME EXTENT BY THE REDUCTION IN SUPPORT PRICE. IN CONTRAST THE DIVERSION HAD A LIMITED IMPACT IN OUR AREA. ONLY A COUPLE OF FARMERS WHO WERE GOING TO SELL OUT ANYWAY USED THE DIVERSION PROGRAM IN OUR COUNTY. APPARENTLY STATEWIDE 10% OR 110 FARMS PARTICIPATED WITH 1000 COWS SUPPOSEDLY KILLED. ONE WIDELY TRAVELED VETERINARIAN OBSERVED TO ME THAT DIVERSION ONLY MADE RETIREMENT FOR DAIRYMEN MORE PROFITABLE, BUT DIDN'T PERMANENTLY AFFECT MILK FLOW.

IN SUMMARY I HAVE TO RECALL THE WORDS OF A NEARBY DAIRYMAN WHO CALLS THE WEEDING PROCESS NECESSARY. WHILE HE ADMITS THAT TIMES ARE TOUGH FOR THE YOUNG FARMER WITH A HIGH DEBT LOAD HE REMEMBERS STARTING AS A DAIRYMAN WITH TWO COWS, AN OFF-THE-FARM JOB, SELLING MILK FOR $2.00 CWT AND BUYING GRAIN FOR $2.00 CWT. TODAY IS NOT THE ONLY TOUGH TIME IN THE DAIRY BUSINESS.

GOVERNMENT PROGRAMS MUST LOOK BEYOND THE MANY CONFLICTING INTERESTS FOR A LONG TERM PERSPECTIVE. PROGRAMS AIMED AT SATISFYING THE DEMANDS AND NEEDS OF EVERYONE WILL MAKE DAIRYING EVEN MORE DIFFICULT IN THE FUTURE.

YES, IT'S A CHALLENGE TO SURVIVE IN TODAY'S DAIRY BUSINESS. IT HAS BEEN CHALLENGING IN THE PAST, IT MUST CONTINUE TO BE CHALLENGING IN THE FUTURE.

TESTIMONY FOR HOUSE AGRICULTURE COMMITTEE

by Ryle Dow

Mr. Chairman, Congressman and Friends of Dairy Farmers:

My name is Ryle Dow - Manager of St. Albans Cooperative Creamery, Inc., which is owned by 500 dairy farmers in Northwestern Vermont.

We are going to support the National Milk Federation position, not because we believe it's the best program for St. Albans Coop, but rather we believe unity is the best road to follow.

The Federation's program is very complicated - one wonders if it was designed to prove how intelligent we are or to perpetuate economists in our society. It's too complicated to explain to the average dairy farmer or manager. Those of us who are in a position that have to try merely mumble to our members, it's just too complicated for you to understand. If you're an intelligent manager, you have an economist on the program who then proceeds to prove how right you were.

This is the failure of all these programs. The grass-roots is left out. The average dairy farmer, who should be our best salesman, can't sell something he doesn't understand.

We believe the Federation's program is workable. We believe it addresses the present overproduction as well as potential shortages in the future.

We believe it correctly updates the base period which is more in tune with today's agriculture.

We believe that the cost of production has to be considered.

We believe it's necessary to have a supply-demand adjuster.

I'm sure you people didn't come here from Washington to hear the Federation position, or AMPI, or DI, or Mid-Am. They all have full-time lobbyists, and if you haven't heard their story yet, they have the wrong lobbyist in Washington.

I told you earlier that I speak for St. Albans Coop and am a director of National Milk Federation. The Federation directors are seated alphabetically, so I sat next to San Joaquin Coop (Sam Wonkeen) from California. At our 1984 fall meeting I asked the gentleman from California if they were trying to bankrupt the U. S. Government with overproduction. I told them that I thought they were the only region in the country that wasn't responding to what we in Vermont thought was a crisis in the dairy situation. These people from California are eloquent spokesmen and very convincing. There is living proof of this in the White House. However, the fact remains that the Western region of the U. S. went contrary to the rest of the nation in milk production.

We would like to offer a simple solution to be added to the Federation Plan. If the Federation Plan works as well as it's designed, this solution will never come into play because the Federation Plan will make the correction before this solution comes into play. But, just in case the Federation Plan doesn't work as well as projected, this will come into play.

It's a mandatory diversion plan. If the Secretary of Agriculture believes that the CCC will have to purchase 8 billion pounds of milk equivalent thru the support price, he mandates a 2% reduction nationwide. This will be approximately 2.7 to 2.8 billion pounds of milk.

Our average production at St. Albans Coop is 800,000 pounds yearly. This amounts to 16,000 pounds per farm, or one good holstein, or two Jerseys. The farmer can feed this to calves, hogs, or hens - we don't care - or he can sell a cow. This won't make or break any dairy farmer. This will leave this great production base that dairy farmers have built up, in place.

It means that farmers will be paying for their surplus thru lost production, and not the tax payer.

It means that Congress won't have to increase the deficit by budgeting more money for dairy supports.

The last diversion program tarnished the image of diversion by making millionaires out of a few large farmers. This will eliminate that problem.

This will help the Southeast as they will suffer only a 2% drop, where under the voluntary diversion they lost a greater percentage of production.

This won't hurt the Western farmer, as our good friends from San Joaquin Valley have already told us, that they were not over-producing, and those stories were only rumors that this industry thrives on.

I would add one kicker to this mandatory diversion. If any one region of the country increases production more than 3% above the average of the balance of the country, then the Secretary should double the national penalty on this region. If the national is 2%, then the region would have a 4% diversion for this region.

This diversion plan will reassure the dairy farmer that the feast or famine days are over. This will add stability to the program so that a farmer can and will plan ahead. This will reassure the dairy farmer that he won't become the scapegoat for our blunders in foreign trade, embargos, and tariff trade-offs.

This will guarantee an ample, nutritionally bargain-priced product for the consumer.

As soon as the Secretary determines that the national level is approximately 5 billion pounds of equivalent milk, he discontinues the diversion.

This Committee and Congress should do everything in its power to eliminate the July 1st price reduction. It will not only send the wrong signal to the dairy farmer, but it will put every manufacturer of hard products in a straight jacket. We will all be forced to dump products to Uncle that we badly need for the fall season. This will needlessly cost the taxpayer a great deal of money, but the same taxpayer will pay again when the short supply causes a needless price increase. I'll bet this Committee couldn't write a worse program than this if you worked on it for the next twenty years. It's a program where everybody loses.

Thank you very much for coming to Vermont and listening to a rural state.

(Attachments follow:)

Powder — butter

91¢ / powder = pre April price = 85

84 3/4 " = post " " = "

6 1/4

8.13 lbs/powder = U.S.D.A.'s powder yield prices

.5084/lb = 51¢

508

13125

.63925

Total loss in northeast

butter

1.46 1/4 = old price

1.43 1/4 = new price

.03¢/lb. loss

4.375 = U.S.D.A. yield figure on a 3.5% basis

.13125¢

Cheese

1.3475 old
1.2875 - new } blocks
6¢

10.1 = U.S.D.A yield figure

.606¢ or 61¢/ reduction

1.3175 old
1.2450 new } bbls.
.0725
10.1

*.7323/lb or 73¢ reduction

don't feel to bad for these boys = They have 15¢/100lbs milk = more in make allowance

VT 05401-[illegible] 802-864-4566

March 12, 1985

Dear

The free market system does not work in agriculture. This is because when a commodity price goes down, a farmer must produce more of that commodity to meet his fixed expenses. If the government puts a floor of 75% of the last three years price, as indicated in the proposed 1985 Farm Bill, all the farmers will grow 25% more to protect themselves from a price that is 25% less. The result is a continual surplus and a continual drop in the price of most commodities. The only reason there is a surplus is because the government is buying up the surplus to support a fixed price.

I purpose a cost of production supported by Congressional Law making it unlawful for dealers, speculators or the government to buy or sell any commodity below its cost of production. This would be the same as the Fair Labor Act used to implement the minimum wage. No one talks about a surplus of labor, they call it unemployment. The government does not hire everybody that cannot get a job for minimum wage.

With my proposal, the government would not buy any commodities other than what they need for defense and school lunches. There would be no surplus. If any farmer had a surplus he would not be able to sell it, he could store it for next year at his expense. He would not have to produce more than he could sell to insure him the ability to pay his bills. There would be two additional benefits of a cost of production law; unemployment would be reduced because of the farmer's increased purchasing power and revenues would be brought into the government by taxing the profit or income that these farmers would be making. At the present time, very few farmers pay income tax. This proposal would not guarantee the farmer a living, he would still have to produce to make money. The cost of production would be calculated for the average farmer by the Dept. of Agriculture figuring wages, interest on his investment of maybe 10% and a differential for areas where the cropping season is short and housing must be provided more substantially. The better managers would be capable of making more money and the poorer producers would consequently make less.

Only in times of a scarcity of a commodity would new farmers be able to get into production of that commodity, but they would be guaranteed the cost of production.

The current tax advantages for non-farming individuals to get into farming for tax write off purposes should be outlawed, so that farmers would not have to compete with people farming for a loss.

The present farm policy does not allow farmers money to put fertilizer and other soil building methods back into the land. Therefore, we are depleting the soil to produce a surplus that nobody wants.

I am a 40 year old dairy farmer in Vermont and I am very worried about agriculture in the United States at this time. I believe agriculture to be the backbone of our economy and the farm sector of this country has been depressed for the last fifty years. Our economy will never be stable unless agriculture stands on an equal basis with industry. We do not want the government to support a price by purchasing the surplus, we want the cost of production the same as labor has a minimum wage.

Sincerely,

Leon E. Saucier
Sunny Hill Farm
R.F.D. 1, Box 31
South Ryegate, Vermont 05069

Submitted by Charles Ashley

My name is Charles Ashley. I own and operate a 900 acre dairy farm in partnership with my son. We milk 160 cows, raise all of our replacements.

I would like to thank the members of the House Agriculture Sub-Committee for allowing me to comment on the dairy portion of the 1985 Farm Bill.

As a dairy farmer I have experienced the cost price squeeze All of my imput costs are up except feed grains. I believe the industry is facing the fact that we are producing to much for the market place. The only long term solution is balancing supply to demand. To avoid the extreme ups and downs, we need the dairy price support program. It has maintained a relative balance of supply and demand in the industry. The present program got out of balance when the Secretary of Agriculture lost his authority to adjust the level of price support according to level of CCC purchases.

We need to update the present program by either a new parity formula or by some form of indexing for setting the support level. Establishment of a formula that will authorize the Secretary of Agriculture to move the support price up or down in response to supply, as reflected by the CCC purchases.

The original purpose of the program was not to enhance prices but supply consumers an adquate supply of fresh milk at reasonable prices. If the program were eliminated we would have extreme ups and downs in supplys. There would be no stability and in the long run-- higher food costs.

The program I favor is essentially the one proposed by the 1985 Farm Bill Committee here in the Northeast. This bill is supported by American Farm Bureau in cooperation with all of the Co-Ops in the Northeast.

The necessary adjustment must be gradual, we have to have time to get out of a situation we have been a long time getting into--. The diversion program did work but was only a short time fix. We now face the same situation we had 15 months ago. I oppose a diversion program because here in the Northeast 160 million dollars were taken out by the 50 cent deduct, only 50 million dollars paid back by the 10 dollar pay back. A 110 milliondollar loss to the Northeast. It benefited the Midwest where most of the the problem originated. It created shortages in the south and other regions. Supplies were short and increased costs to consumers in those areas.

I oppose supply management programs (Quotas) for the following reasons.

- Agriculture in this country is the most efficient in the world.. Quotas would remove incentive for efficiency, reduce competitivness in the industry.
- Quotas tend to take on Capital Value-- making it harder for the young farmer to get started.
- Fairness and equity in a national program would be a constant problem. We are only 2% of our population, 98% depend on us for food at least cost. Quotas would definately raise food costs.
- It is a proven fact that industry is much more efficient with out government control.

Many of the farmers in trouble got there by a combination of problems--

- credit too liberal-- FMHA original intent was good, but politics got into the act.
- Inflation
- High interest rates
- Now the strong dollar

The National Dairy Promotion Program must be continued. It certainly helped in reducing the CCC purchases and is paid for by the farmer. Dairy advertising is now big business to the best of the advertising agencies.

The 1985 Farm Bill Committee does not support a diversion program or any type of quota system.

As our elected representatives you have a tremendous responsibility in farm legislation to lay ground work for long term stability in the Agriculture Industry. We must have a market oriented program that will cushion or ease the extremes of the market.

Thank You.

TESTIMONY
OF
VERMONT FARM BUREAU, INC.
RUPERT C. CHAMBERLIN, PRESIDENT

CONGRESSMAN JEFFORDS,

I AM RUPERT CHAMBERLIN, PRESIDENT OF VERMONT FARM BUREAU. I APPRECIATE THE OPPORTUNITY TO COME BEFORE THIS GROUP AND SPEAK ON FARM BUREAU'S POSITION REGARDING THE 1985 FARM BILL NOW UNDER DISCUSSION. I ALSO REPRESENT MY OWN INTERESTS AS AN ACTIVE DAIRY FARMER WITH A 200 ACRE FARM IN BARTON, AND 115 HEAD OF REGISTERED JERSEY CATTLE.

VERMONT FARM BUREAU IS A VOLUNTARY ORGANIZATION OF 4,434 VERMONT FARM FAMILIES FROM ALL FOURTEEN COUNTIES, REPRESENTING EVERY TOWN AND VILLAGE IN THE STATE OF VERMONT. THE MAJOR OBJECTIVE OF THIS ORGANIZATION HAS BEEN, AND REMAINS, THE ECONOMIC WELL-BEING OF VERMONT AGRICULTURE. OUR POLICY IS FORMED FROM THE MEMBERS UP. NEIGHBORS GET TOGETHER, DISCUSS MUTUAL PROBLEMS AND SOLUTIONS AND BRING THEIR IDEAS TO THE COUNTY FARM BUREAU. AT EACH COUNTY ANNUAL MEETING, THE MEMBERSHIP GETS A CHANCE TO DISCUSS AND ADOPT POLICY BY THE DEMOCRATIC PROCESS. IN TURN, THIS POLICY IS DISCUSSED AND ADOPTED OR REJECTED BY A DELEGATE BODY ELECTED BY THE COUNTIES AT THE STATE ANNUAL MEETING EACH NOVEMBER. THE POLICY IS RATIFIED ONLY AFTER EACH OF THESE STEPS IS TAKEN, UNLIKE OTHER ORGANIZATIONS WHERE THE POLICY IS FORMULATED AND HANDED DOWN FROM THE EXECUTIVE COMMITTEE. IT IS WITH THIS PROCESS THAT VERMONT FARM BUREAU AND THE AMERICAN FARM BUREAU FEDERATION HAS DEVELOPED ITS POLICY ON THE 1985 FARM BILL.

THE PROVISIONS OF THE 1985 FARM BILL ARE VERY IMPORTANT TO THE FUTURE OF VERMONT AGRICULTURE. VERMONT IS A SMALL STATE, IN TERMS OF ITS TOTAL AGRICULTURAL PRODUCTION; HOWEVER, NINETY PERCENT VERMONT'S TOTAL GROSS AGRICULTURAL INCOME COMES FROM A SINGLE COMMODITY--DAIRY! NO OTHER STATE IN THESE UNITED STATES WILL BE MORE AFFECTED BY THE DAIRY PORTION OF THE FARM BILL THAN VERMONT.

GOVERNMENT'S ROLE IN FARM PROGRAMS IS ONLY TO CREATE A CLIMATE THAT GIVES A FARMER THE OPPORTUNITY TO PRODUCE FOR A MARKET IN RELATION TO THE SUPPLY AND DEMAND OF THAT COMMODITY. WE DON'T WANT WALFARE. WE DON'T WANT ESTABLISHMENT OF A SUPPLEMENTAL INCOME FOR OUR VERY EXISTENCE.

In an attempt to develop policies for the Farm Bill '85, Vermont Farm Bureau, Green Mountain Federation and the Vermont Department of Agriculture held eight day-long meetings with farm organization leaders throughout Vermont to discuss the alternatives available as possible solutions to the dairy problem. Connecticut and New York participated in several of these discussions.

The alternatives examined ranged from a true free market system to a government supply management concept. We have also participated in organized efforts by other groups throughout the Northeast.

These efforts, along with the delegate action at the county, state and national Farm Bureau levels, have developed into several goals that must become part of the 1985 Farm Bill:

1. Improve net farm income--the most important goal.
2. Recognize that all commodities are interrelated, and that any change in supply, demand or price of one affects the other.
3. Support a dairy price support program which will bring supplies down to demand levels on a timely basis.
4. Favor a system where the price support level is automatically adjusted according to the amount of net dairy products purchased by the federal government, and oppose any assessment of producers by the federal as part of any future program.
5. Support a moving average of the previous three years' all milk market price for determining the price support.
6. Support the current national dairy promotion and research program, provided it is approved by a producer referendum.

THESE SIX MAJOR PROVISIONS OF FARM BUREAU POLICY WERE DISCUSSED AND RE-DISCUSSED IN EACH COUNTY FARM BUREAU, IN THE STATE FARM BUREAU, AND IN THE SERIES OF FARM BILL '85 DISCUSSION MEETINGS THAT INCLUDED MANY DAIRY LEADERS HERE TODAY. WE BELIEVE THAT AFTER THAT SERIES OF MEETINGS (CONCLUDING IN DECEMBER, 1984 AT THE SHERATON INN IN BURLINGTON), A CONSENSUS OF THESE MAJOR POINTS EXISTED. COMMON GROUND FOR THE DEVELOPMENT OF A SOUND, LONG-RANGE, MARKET-ORIENTED DAIRY POLICY WAS ESTABLISHED. WE ARGUED, ALONG WITH SEVERAL OTHER ORGANIZATIONS, THAT THERE IS NO NEED FOR A STANDBY OR SAFETY NET PROVISION FOR CONTROLLING OVERPRODUCTION. ALTHOUGH THERE WAS MUCH DISCUSSION ON THE STANDBY SUBJECT, NO MAJORITY DECISION WAS EVER REACHED. SINCE THAT TIME, DISCUSSIONS BY OTHER GROUPS, AND INDEPENDENT CONCLUSIONS OF VERMONT'S NEW COMMISSIONER OF AGRICULTURE, HAVE BROUGHT DAIRY DIVERSION AND STANDBY PROVISIONS BACK TO THE BARGAINING TABLE. OUR EFFORTS TO UNIFY THIS INDUSTRY HAVE FALTERED.

IN 1977, DURING THE DISCUSSION OF THAT FARM BILL, HIGH PRICE SUPPORTS WERE THE MAIN TOPIC AND THE OUTCOME LED THE DAIRY INDUSTRY INTO DISASTROUS PRODUCTION PATTERNS THAT ADDED TO OVERPRODUCTION PROBLEMS THAT HAVE CONTINUED TO THE PRESENT TIME. FARM BUREAU WAS JUST AS GUILTY OF SUPPORTING THAT LEGISLATION AS EVERY OTHER ORGANIZATION. WE DO NOT WANT TO CONTINUE THAT MISTAKE.

1981 LEGISLATION LED TO CONSTANT UPDATES, UNTIL THE RECENT DAIRY DIVERSION PLAN WAS PASSED. THE PROGRAM WAS TEMPORARY, TO LAST ONLY FIFTEEN MONTHS. THIS PROGRAM WAS DESIGNED TO GIVE DAIRY FARMERS AN OPPORTUNITY TO MAKE THE NECESSARY ADJUSTMENTS UNTIL NEW APPROACHES WERE DEVELOPED FOR THE MARKETPLACE. WE WERE TOLD THAT WE NEEDED TO DEVELOP A UNITED FRONT WITHIN THE DAIRY SECTOR. NOW THE ADMINISTRATION HAS INDICATED ITS REFUSAL TO ADOPT ANY DIVERSION PROGRAM. THE DIVERSION GENERATED MORE ADVERSE PUBLICITY FOR DAIRY FARMERS THAN ALMOST ANY FARM PROGRAM IN HISTORY.

LET US TRY ONE MORE TIME TO PICK OURSELVES UP AS AN INDUSTRY AND ADOPT A PLAN THAT WILL STRENGTHEN DAIRY FARMING FOR THE FUTURE. WE BELIEVE SUCH A PLAN HAS BEEN INTRODUCED IN THE HOUSE BY CONGRESSMAN WILLIAM EMERSON OF MISSOURI-- THE FARM BUREAU FARM BILL PLAN, H.R. 1965. IT IS AN INNOVATIVE PLAN, A CREATIVE PLAN, A well-thought-out plan. It takes the dairy problem away from Congress and the politicians. Please give it your consideration. Don't give up on us now. We do not want an extension of current farm program legislation as our only alternative. We trust that you will have the interest and forethought to investigate the alternatives thoroughly.

Thank you.

I now present to you Robert A. Simpson, Chairman of the Vermont Farm Bureau Dairy Committee, and a member of the American Farm Bureau Federation Dairy Advisory Committee, for further testimony on behalf of our organization.

CIRCLE SAW FARM
PETH ROAD - RFD #2 - RANDOLPH, VERMONT 05060

TESTIMONY OF ROBERT A. SIMPSON AT FIELD HEARING OF CONGRESSMAN
JIM JEFFORDS APRIL 13, 1985 BURLINGTON, VT.

CONGRESSMAN JEFFORDS,

MY NAME IS ROBERT A. SIMPSON. MY WIFE AND I OWN AND OPERATE A 600 ACRE DAIRY FARM IN BRAINTREE. WE MILK 120 HOLSTEINS AND HAVE 80 HEIFERS. I SERVE AS THE CHAIRMAN OF THE VERMONT FARM BUREAU DAIRY COMMITTEE AND I REPRESENT NEW ENGLAND ON THE AMERICAN FARM BUREAU DAIRY ADVISORY COMMITTEE. MY TIME SPENT WITH FARM BUREAU IS VOLUNTEER.

THE AMERICAN FARM BUREAU BOARD OF DIRECTORS AT THEIR MARCH MEETING ADOPTED A PLAN SUBMITTED BY THE DAIRY ADVISORY COMMITTEE FOR THE PRICING OF MILK TO BE INCLUDED IN THE 1985 FARM BILL. THIS PLAN WHICH HAS NOW BEEN INTRODUCED AS LEGISLATION IN THE HOUSE BY CONGRESSMAN WILLIAM EMERSON OF MISSOURI INCLUDES THE FOLLOWING FEATURES.

1. THE CONTINUATION OF THE PRICE SUPPORT PURCHASE PROGRAM.

2. DETERMINATION OF THE PRICE SUPPORT BEING 80 PERCENT OF THE PREVIOUS THREE YEAR'S ALL MILK PRICE. THIS PRICE WOULD BE FACTORED IN THE SUPPLY-DEMAND ADJUSTER AT THE 100 PERCENT READING WHICH IS AT THE 5 BILLION POUND OF CCC PURCHASE LEVEL.

3. THIS FIGURE WOULD BE FACTORED UP OR DOWN TO REFLECT ESTIMATED CCC PURCHASES. THE ESTIMATED OCTOBER SUPPORT PRICE WITH 3 BILLION POUNDS OF NET CCC PURCHASES WOULD BE $12.06. AT 7 BILLION POUNDS OF CCC PURCHASES OR MORE THE OCTOBER PRICE WOULD BE $11.30.

4. THE SECRETARY OF AGRICULTURE WOULD BE PROVIDED DISCRETIONARY AUTHORITY TO ADJUST THE SUPPORT PRICE BY NOT MORE THAN 3 PERCENT ON APRIL 1, 1986. AND FOR ANY SUBSEQUENT SIX MONTH PERIOD IF CCC PURCHASES ARE ESTIMATED TO EXCEED 7.00 BILLION POUNDS MILK EQUIVALENT DURING THE NEXT 12 MONTHS.

5. THE SUPPORT PRICE AND THE ADJUSTED SUPPORT PRICE TO BE ADJUSTED SEMIANNUALLY, OCTOBER 1 AND APRIL 1, TO INSURE THAT DAIRYMEN ARE RECEIVING ADEQUATE PRICE SIGNALS WITHIN A REASONABLE TIME PERIOD.

FARM BUREAU BELIEVES THAT THIS PRICING SYSTEM WILL WORK WITHOUT CREATING HUGE CCC PURCHASES AND WITHOUT THE NEED FOR A DIVERSION PLAN OR FARMER ASSESSMENTS. THIS PLAN WILL GIVE DAIRY FARMERS THE SECURITY OF A SUPPORT PRICE NECESSARY FOR MAKING SOUND BUSINESS DECISIONS WITHOUT WORRYING ABOUT BUILDING A BASE FOR A FUTURE DIVERSION PROGRAM OR DECLINING CASH FLOW DUE TO PRODUCER ASSESSMENTS. THIS PLAN WOULD ALLOW THE MARKET PLACE TO WORK IN THE CASE OF SHORTAGES AS IT DID THIS LAST FALL, WITH THE MINN. AND WISCONSIN PRICE GOING OVER THE SUPPORT PRICE. FARMERS LOOKING FOR MORE MONEY IN THEIR MILK CHECKS SHOULD LOOK FIRST TO THE MARKETPLACE RATHER THAN TO THE GOVERNMENT. FARM BUREAU IS A SUPPORTER OF RCMA. WE BELIEVE THAT REGIONAL COOPERATIVE MARKETING ASSOCIATIONS SEEKING OVER ORDER PRICING IS BETTER THAN SEEKING TAX DOLLARS.

THERE ARE SEVERAL REASONS WHY FARM BUREAU MEMBERS DIDN'T SUPPORT A DIVERSION FOR THE 1985 FARM BILL.

1. THE DIVERSION PROGRAM DISRUPTED THE ORDERLY MARKETING OF MILK SINCE THE HIGHEST SIGN UP WAS IN THE SOUTH WHERE ONLY A FLUID MARKETS EXIST, CAUSING MILK TO BE HAULED IN FROM WISCONSIN AT A HIGH COST TO THE SOUTHEAST FARMER.

2. FARMERS IN THE DIVERSION WERE ABLE TO RAISE HEIFERS IN THE SPACE AND WITH THE EXTRA FEED AVAILABLE AFTER SELLING COWS TO CUT PRODUCTION. TODAY THERE ARE 44 HEIFERS OVER 500 POUNDS FOR EACH 100 COWS. 31 TO 33 PER 100 WOULD BE ADEQUATE TO MAINTAIN THE MILKING HERD.

3. THE DIVERSION PROGRAM DIDN'T DECREASE THE ABUNDANCE OF RESOURCES AVAILABLE AND DEVOTED TO DAIRY PRODUCTION.

5. ALL YOU HAVE TO DO IS MENTION THAT THERE MAYBE A DIVERSION PROGRAM AND FARMERS SCRAMBLE TO BUILD THEIR BASES.

6. AS A NORTHEAST DAIRYMAN THE DIVERSION MEANT GIVING SOME OF OUR MARKET TO OTHER ORDERS. THE NORTHEAST ALSO PAID MORE MONEY OUT THAN WAS RETURNED TO NORTHEAST DAIRYMEN AS DIVERSION PAYMENTS. NORTHEAST DAIRYMEN ARE IN NO POSITION TO HELP SUPPLEMENT THE INCOMES OF FARMERS IN OTHER PARTS OF THE COUNTRY.

THERE ARE THOSE WHO SEEM TO THINK THAT IT IS POSSIBLE TO WRITE A FARM BILL THAT WILL KEEP EVERY DAIRYMAN IN BUSINESS. ONTARIO, CANADA HAS LOST ONE THIRD OF ITS DAIRY FARMS SINCE GOING TO A QUOTA SYSTEM. INCREASES IN PRODUCTION PER COW HAVE RESULTED IN MORE MILK PRODUCTION TODAY THAN 20 YEARS AGO WITH 4.5 MILLION FEWER COWS.

LEW MIX OF AGWAY SPEAKING RECENTLY AT THE NORTHEAST DAIRY CONF- [illegible]

ERENCE, PREDICTED THAT PRODUCTION PER COW WILL INCREASE ANOTHER 4300 LBS. BY THE YEAR 2000. BY USING CENSUS FIGURES AND CONSUMPTION ESTIMATES, LEW MIX PREDICTED THAT 21,000 DAIRY FARMS IN THE NORTHEAST WOULD BE ABLE TO PRODUCE ENOUGH MILK TO MEET THE MARKET NEEDS. THAT WOULD MEAN A DROP IN THE NUMBER OF DAIRY FARMS FROM THE CURRENT 39,000 TO 21,000 IN THE NORTHEAST. THAT IS A LOSS OF ALMOST HALF OF OUR DAIRY FARMS IN THE NEXT FIFTEEN YEARS. I OFFER NO SOLUTION, BUT I WANT EVERYONE TO REALIZE THAT THE INCREASE IN PRODUCTION PER COW AND NOT ANY PARTICULAR DAIRY PROGRAM WILL BE THE CAUSE OF DECLINING DAIRY FARM NUMBERS. I'VE WONDERED IF THE DEFENSE DEPARTMENT COULD BUY UP OLD DAIRY FARMS AND PUT THEIR MX MISSLES IN THE SILOS.

ON THE SUBJECT OF CREDIT, FARM BUREAU URGES THE DEVELOPMENT OF PROGRAMS TO HELP YOUNG FARMERS GET ESTABLISHED IN FARMING. FARM BUREAU IS OPPOSED TO ANY MORATORIUM ON FMHA LOAN FORECLOSURES.

TO IMPROVE THE PROFITABILITY OF FARMING IT IS IMPERATIVE THAT CONGRESS GET THE DEFICIT UNDER CONTROL. IN THE LONG RUN CONTROLLING THE DEFICIT MAY BE MORE IMPORTANT THAN ANYTHING THAT COULD BE WRITTEN IN THE 1985 FARM BILL.

I WOULD LIKE TO THANK CONGRESSMAN JEFFORDS FOR THIS OPPORTUNITY TO SPEAK TO YOU TODAY AND FOR THE IMPROVED COMMUNICATION BETWEEN FARM BUREAU AND YOUR STAFF.

JOHN C. FITZGERALD, ESSEX JUNCTION, VT

The transition from price supported agriculture to free market farming is a very troubled path. Many farmers are going to lose all they own—while we watch corporations operate under Chapter 11 of the bankruptcy laws under similar circumstances (loss of markets, poor management, cash-flow problems etc.). I never heard of a family farms operating under Chapter 11.

Many of these farms are under the stewardship of a farm family more concerned with heritage than materialism.

How can we help as Sen. Dole asked without costing a lot? One way would be to declare Agriculture one of the great estates and give states the power to charter prime ag land and supporting buildings as a farm. An indivisible unit—perhaps protected by Chapter 11 and charter.

Chartered farms would enjoy the same protection as the other great estates. States could regulate the maximum size of farm to be protected i.e. section or quarter section. This is a sort of spin-off of a scheme that works in Norway on a much smaller scale.

[Attachment follows:]

JOHN C FITZ GERALD
15 IRA ALLEN DR.
ESSEX JUNCTION, VT
05452

New Homestead Act Would Recapture American Dream

APR 81

Vermont Perspective
By John C. Fitzgerald

In the world of electronic journalism, the newspaper must fill in the shadows cast by headlines. I have waited for someone to fill in both sides of the commodity (dairy) price support headline. Since nobody showed up, I guess it's my turn.

Price supports enhance the economic position of their clientele groups, but not by much. Price supports keep grain farmers disking, dairy farmers milking, sugar cane growing in Hawaii, and sheep from extinction. Free markets produce eggs and poultry at bargain prices from "farm factories." Free markets create "pot" farms in the California mountains and 5,000 cow dairies in their valleys.

Free markets cannot afford idle land. Free market farming will rival free market oil companies or utility companies in size and lack of competition. Since World War II, many farmers have tried to capture the best of both worlds, i.e. support prices and free market production. Middle class Americans are no longer willing to help save farm factories and the urban poor.

The dairy industry has a couple more surprises waiting in the wings. Only the giant dairy lobbies have kept this tragedy from playing to a packed house. The U.S. Department of Agriculture has deferred a decision on "recombined or reconstituted" milk. It has come to the citrus and maple industries; can dairy be far behind?

A major breakthrough in fluid milk preservation has been accomplished at the research level. If these two efforts gain free market status, the Vermont dairy industry will fade faster than fog in the morning sun.

I saw seven cuttings of alfalfa a year in the Yuma Valley (with government water) and the level fields of the Midwest waiting to drown the Northeast in free market agricultural products.

Since the 1930s I've watched the transition of Vermont meadows to trees as farms became one product factories. Do we want only trees, houses, and factories in our state?

We have witnessed what happens to land in a free market. Luther Tweeten, a respected economist at Oklahoma State University, points out that those people (or buinesses) with assets and related income who are not dependent on the income generated by the land being purchased can bid more successfully for that land than those without other assets. A person wanting to start free market farming without another source of income can not afford land in inflationary situations.

Somewhere in the last 100 years we took a wrong turn. The Homestead Act of 1862 turned land into the American dream — a place of our own. The Morrill Act of 1862 turned land into educational opportunity. Then Congress passed the Hatch Act in 1887 creating an agriculture research station in each state and the production treadmill evolved.

The vision of good soil, water, and weather was blurred by vast infusions of energy that enabled man to grow corn "as high as an elephant's eye" and double a cow's milk production. The Homestead Act was repealed after 110 years and farming has lost its multifaceted image.

One can't help but wonder if the dairy barn will follow the riverside mill buildings in government subsidized apartments.

Time and again I have declared that the quarter section (160 acres) is the cornerstone of American agriculture and ought to be preserved.

A new homestead act, one that would repioneer a sense of stewardship in the private sector, must be forged. Government must reduce its role as sole proprietor and protector of "green belts."

A forester speaking on world forestry for the United Nations said, "Governments frequently have social motivations for investment participation, and this makes them desirable and complementary investment partners." After all — only the land remains.

•John C. FitzGerald is a retired Air Force flight engineer who is presently employed at the George D. Aiken sugar maple laboratory.

(Additional attachment is held in the committee files.)

TOWN OF BROOKFIELD, VERMONT
OFFICE OF SELECTMEN
BROOKFIELD, VERMONT 05036

13 April 1985

The Honorable James M. Jeffords
Dairy Subcommitte, House Agriculture Committee
Congress of the United States
House of Representatives
Washihgton, D.C., 20515

Dear Jim,

I wish I could offer you some hard dollar figures as totthe worth of the family farm as I realize that the notion of 'cost effectiveness' is very appealing in this the Year of the Deficit. While I cannot I would like to emphasize that what may be cost effective in the short term may be disaster in the long term. Some points I would like to raise for your consideration of the 1985 Farm Bill are:

1. I believe that the family farm, that is the farm on which the family unit derives its income from and exercises hands on stewardship on the land, is essential to the social and economic fabric of rural America. In our town of Brookfield, for example, while only 5% of the adult population depends on farm income, approximatley 60% of the town offices are held by farmers. The ownership of productive land seems to give people a tremendous sense of responsibility for their communities.

2. I believe that small scale enterprises ought not to be discriminated against by legislation. We ship our milk to a small handler in nearby Randolph. The raw product from three modest sized farms provides an additional livelihood for five more families who process and distribute our milk. These people all pay taxes locally and shop locally, further strengthening the community. Think also about the public health aspects of small units of production, processing and distribution. Certainly the epidemology of tracing the output from this plant would be considerably easier than tracking the product from a plant which supplies most of Chicago as is required in the present outbreak of salmonella in that city.

3. I believe that the SCS (Soil Conservation Service) ought not to be dismembered and further that any Federal programs require, if payments are involved, that the recipients demonstrate reasonable practices of soil and water conservation.

4. I participated in the Dairy Diversion Program and, given our circumstances at the time, benefited financially from it. In general

however, I would say that programs of such short duration do not foster intelligent planning and may even require practices which are at odds with good animal husbandry.

5. I have served for three years on the Orange County Committee of the Farmers Home Administration, and with some reluctance I must say that, while I believe that system has operated with honor, I feel that it is no longer appropriate for the federal government to make direct loans to farmers. It would be nice to think that every young American could be capitalized to start an independent business however the present capital needs of Agriculture are such that it is unreasonable to embark on farm ownership with little or no equity and few management skills. I think that there are opportunities for apprenticing with existing famers for ambitious young people.

6. It is not clear to me that all existing farm programs serve in the best interest of farmers. In particular I look with deep suspicion on biotechnological research and to the extent that there is federal participation in this I believe that it should be examined carefully.

In conclusion I believe that a system of agriculture based on family units of production is both efficient and compatible with our national goals as every politician since Washington has enunciated them. This is not to say that farmers should necessarily be subsidized but rather that carefull consideration be given to all proposals to make sure that they provide for our needs decades hence as well to suit the immediate exigencies of budget and popular ideology. Survival of the fittest has a nice ring to it but we have to consider what fittness will mean in the future as well as in the short term.

Sincerely

Charles M. Keeler

Burlington, Vt
Copake, New York
13 April 1985

Dear Congressman,

Thank you for this opportunity to present my feelings on dairy issues.

I would like to correct a statement made by the gentleman from Massachusettes that our cost of transportation in the East is less, because we are closer to the market.

Quite the opposite is true. My milk truck makes one trip per day, about 70 miles to Hartford. In the midwest it is common to use a straight truck that costs less to operate, and make two trips per day because the milk plants are closer to the farms. The cost of hauling in Wisconsin is about half of that common here in the East. My cost for hauling milk was 67.7¢ per cwt. for last month. Our cost for hauling just went up about 10% because of the bridge collapse in Conn. The state went to strict enforcement of the bridge-weight law and the trucks had to reduce their payload by about 10% to meet specifications. I would point out that the entire extra cost of hauling was paid for by the farmer and not one cent came from the consumer.

I would now like to address the problem with the Federal orders. As Mr. Lewis is well aware one problem with the diversion program has been spot shortages of class I milk. The Florida area was most severley affected. Nedco in New York was also affected. It is my opinion that the class I differencials all up and down the east cost have to be increased. Also the way the orders are written the coops stand all the exra cost of supplying the market, in this situation Dairyman inc. and Nedco. The benifits are distributed evenly. Again, both the handeling allowance and the transportation differencals need to be increased.

The coops that operate in my area are Nedco, Eastern, Dairylea and Agri-Mark. Agri-Mark, my coop is probably the soundest.

I still must pay monthly dues of $25 plus 4¢ per cwt. to sell my milk. I must also invest my money in Agri-Mark plants. I have about $18,000 invested and I didn't recieve one cent form Agri-Mark as intrest on my investment last year. It is all to easy for the market administrator to wag his finger and say they didn't pay attention to business. It simply cost more money to supply a fluid market because part of the time your plant must sit empty. Several years ago it happened that the price Wisconsin Dairys paid as a dividend, 25¢ per ctw. as I recall, was in the same paper as the assesment that Dairylea members had to pay. Using the 30¢ difference in the hauling rate that prevaled then it was easy for me to figure out tht my neighbores shipping to Dairylea were getting less for their class I milk than the class II producer in Wisconsin. Why should fluid milk bring less in Hartford Conn. than milk delivered to a cheese plant in Wisconsin? Where is that rich Eastern market I heard about in collage?

Ther are three rules of material handeling. 1. Don't 2. Move it in larger batches, and 3. Move it continuous. The first rule gives a sound economic reason to charge differencials. Say it cost less to produce milk in California than in Florida, as I think is the case. It makes no sense to have the government maintain the same low price in Florida only to cause milk to be shipped from California. In the end the consumer pays the California price, plus the cost of transportation. Milk should be produced where it is needed.

Dr. Stammer stated that the milk supply became a problem when the support was raised to 80%. I think Dr. Stammer is taking to narrow a view. In his book Agricultural Policy of the United States , Halcrow states; "Storage programs have two effects on resource use, 1. They create price certainaty--- 2. They change the distribution of resources among commodities." That means that when the government storage program for grain was ended and they went to the target price, the effect was to draw resources into dairy where the storage program was maintained. As I recall the point was made by the UADA economist that dairy should go to target price at the same time, but Mr. Healy's NMPF killed that proposal off.

The statement was made by several that the government should get out. I think that a good case can be made for that statement. In 1979 the government purchased only 1.1 billion pounds of milk. Most of that was needed for government programs. Had the price support program been ended before that date, anyone producing beyond the needs of the market, would have had to pay the storage cost. If the government didn't guarantee a market for every last drop of milk produced, it wouldn't be produced. If the government didn'tguarentee a market we would have been spaired the build up of a million head of cattle. These cattle represent an investment of at least three thousand dollars each and so represent a total investment of at least three billion dollars. Dairy farmers must now walk away from that three billion dollar investment before supply drops to demand.

While I was a student at Iowa State University I had the plasure of being addressed by perhaps the most famous farmer in America, Roswell Garst. I found him a very plan spoken man, but every sentence had a piece of meat as big as your plate. One of his statements was"Oats are the surest crop in Iowa.... The surest to lose money." Roswel Garst was not oposed to taking a certain amout of risk. He also prospered.

I think we in the dairy business must also be willing to accet a certain amount of risk. I think we can also prosper.

I do not like the target price plan because I do not see how the coops could clear the market and still survive, perhaps with help they could. I am not crazy about the NMPF plan either. I guess its just not plain enough. I guess I have to propose my own.

I would pick an amount of money I wanted to spend, Wack it up into 28 pices and accept bids for milk equivelant every two weeks. Who ever offered the greatest amount of milk would get the money. All others would have to wait two weeks and try again.

It's called the Langdon Plan.

Good luck

G. Dinehart Langdon

Weeks dairy foods

Weeks-Concord, Inc.
328 North State Street
Concord, New Hampshire 03301

April 16, 1985

Written Testimony
of
John F. Weeks, Jr.
for
House Subcommittee on
Livestock, Dairy and Poultry

April 13, 1985
Burlington, Vermont

Mr. Chairman and Members of the Subcommittee:

I want to thank you for this opportunity to express our concerns and offer suggestions about the future of the dairy program currently being considered by Congress as part of the 1985 farm bill. I commend you and members of the subcommittee for coming to Burlington, Vermont to hear directly from New England dairymen and processors their views on dairy legislation, and I regret not being able to attend personally.

I am President of Weeks Dairy Foods Inc., established in 1930. We are New Hampshire's largest dairy. We process and distribute fluid milk products, and manufacture and market ice cream throughout New Hampshire, and in parts of neighboring Maine, Massachusetts, and Vermont. We purchase more than 100 million pounds of fluid milk and cream annually from 75 independent New Hampshire dairymen, from Cabot Farmers' cooperative Creamery, Cabot, Vermont, and from other sources. More than 200 people are employed in our operations. 1985 sales are expected to be $40 million, with combined employee and direct dairy farmer payroll in New Hampshire of more than $14 million, (not inclusive of outside purchases).

Phones: Concord 225-3379 – Other Areas Of N.H. Toll Free 800-852-3384

As you can see, the people of Weeks Dairy Foods have a deep interest in the dairy program Congress ultimately adopts. There are two points which we feel are vital in developing a dairy program that maintains an adequate supply of milk for current and future needs, balances production and demand, provides stability for producers and consumers, reduces government costs and yet is flexible enough so that new laws don't need to be written each year.

First, the remaining provisions of the Dairy and Tobacco Act of 1983 should be carried out. This includes discontinuation of the milk diversion program and reducing the milk price support by 50¢/cwt., already achieved on April 11, 1985, and keeping the 50¢ price support cut scheduled July 1, 1985. The July 1st drop will send a clear signal to producers that production still must be reduced. In addition, it will also help stimulate consumption. Both of these things need to happen if we really want to start solving the surplus problem.

Secondly, it is our feeling at Weeks that a simple, straightforward program based on a milk price support level reflective of commercial demand is the best solution. That means no fancy gimmicks, no paid diversions programs, no production quotas and no artificial taxes, assessments or penalties on dairy farmers.

We hope you will carefully consider the proposal developed by our trade associations, the Milk Industry Foundation and the International Association of Ice Cream Manufacturers in Washington D.C.. For your information I am enclosing a very brief one page description of the associations proposal. I would appreciate hearing your thoughts and views on the future of the dairy program and look forward to your reply.

Respectfully submitted

John F. Weeks, Jr.
President

JFWjr:lbg
Enc.

(The following is a brief summary of the MIF/IAICM position on the Dairy portion of the proposed 1985 Farm Legislation)

DAIRY PROGRAM - MIF & IAICM POSITION

The MIF/IAICM position is to bring a better balance between milk supply and demand by adjustments to the support price level. This would occur by mandating price adjustments at an upper and lower limit of projected purchases by CCC. It would also allow the Secretary of Agriculture flexibility to make other adjustments to price if necessary, to keep CCC purchases within these upper and lower bounds. This policy stands in opposition to the use of any sort of supply management scheme, such as the milk diversion program contained in current law, and favors the two 50-cent scheduled price reductions on April 1 and July 1, 1985.

Some specifics which could be incorporated in legislation for the forthcoming federal fiscal year beginning October 1, 1985 are:

- setting the support price at $11.60 (this would be an extension of the price support already in effect assuming both scheduled 50 cent drops occur this year) and maintaining this price for fiscal year 1986;
- requiring the Secretary to reduce this price by not less than 50 cents on October 1, 1986 (and at the beginning of each subsequent fiscal year) if CCC purchases are projected to exceed 4 billion pounds milkfat equivalent or $750 million, whichever is less;
- requiring the Secretary to increase the price support by not less than 50 cents if CCC purchases are projected to fall below 2 billion pounds milkfat equivalent and 300 million pounds of nonfat dry milk;
- Providing the Secretary with discretionary authority to adjust the price during the fiscal year if CCC purchases are anticipated to exceed 4 billion pounds or fall below 2 billion pounds.

Government purchases in the 2 to 4 billion pound range will provide stability in the marketplace and will allow the government to meet commitments to domestic food aid and nutrition programs.

GENERAL FARM BILL OF 1985
(Dairy Program)

FRIDAY, APRIL 19, 1985

House of Representatives,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Okeechobee, FL.

The subcommittee met, pursuant to notice, at 10:05 a.m., in the Okeechobee Civic Center, Okeechobee, FL; Hon. Tony Coelho (chairman of the subcommittee) presiding.

Present: Representatives Jeffords and Lewis.

Staff present: Kim Schnoor.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Coelho. If you will all take your seats we can begin these hearings.

We are meeting today to receive testimony from the Southeast regional interests about the dairy program and dairy issues relating to the formulation of the 1985 farm bill.

Over the past several weeks, the subcommittee has heard from five regional economists who shared with us their thoughts about the current dairy programs, what that program has accomplished or failed to do, and what they project will occur as a result of the implementation of the diversion program. After that hearing, several members of this subcommittee were intrigued with that testimony and the general consensus among those economists about the needed direction for dairy policy. In the following hearing, the subcommittee was provided with even further insight about the dairy program and the impacts of the diversion program. These hearings were designed to provide the members with background about the previous dairy legislation, so that when we begin to formulate the dairy provisions of the 1985 farm bill we each will fully recognize the concerns of the various interests as well as the needs of our dairy farmers.

It is only right that we now further our knowledge about the impact of proposed dairy legislation in the farm bill by hearing from constituents from various regions in the Nation. Last week, the subcommittee held hearings in Holmen, WI, and in Burlington, VT to receive input from the Midwest and Northeast areas, to hear from the dairy farmers in those regions. I appreciate having the opportunity to join my good friend and colleague, Congressman

Lewis, in his congressional district in order to hear, firsthand, what his constituent's concerns are about the farm bill. I look forward to the insight that we will receive as a result of these hearings.

I'd like to say to the witnesses that we will be holding to the 5-minute rule. Your prepared statement will be made a part of the record if you summarize. But your statement will be 5 minutes and then each of the members of the panel will have 5 minutes to question you, if they so desire.

I'd first like to acknowledge the appreciation of the subcommittee, myself as the chairman and the ranking minority member, Jim Jeffords, to Mr. Lewis for inviting us to come to this area and to find out more about this region and the interests that you have on dairy legislation.

I also want to express my appreciation to Tom's staff for their putting this hearing together and moving us around in the way that they have. Tom, we appreciate it very much and want you to know that we do.

[The prepared statement of Mr. Coelho follows:]

OPENING STATEMENT OF
HON. TONY COELHO
CHAIRMAN, SUBCOMMITTEE ON
LIVESTOCK, DAIRY, & POULTRY

The hearing will come to order.

We are meeting today to receive testimony from Southeast regional interests about the dairy program and dairy issues relating to the formulation of the 1985 Farm Bill. Over the past several weeks, the Subcommittee has heard from five regional economists who shared with us their thoughts about the current dairy programs, what that program has accomplished or failed to do, and what they project will occur as a result of the implementation of the diversion program. After that hearing, several members of this Subcommittee were intrigued with that testimony and the general consensus among those economists about the needed direction for dairy policy. In the following hearing, the Subcommittee was provided with even further insight about the dairy program and the impacts of the diversion program. These hearings were designed to provide the members with background about the previous dairy legislation, so that when we begin to formulate the dairy provisions in the 1985 Farm Bill we each will fully recognize the concerns of the various interests as well as the needs of our dairy farmers.

It is only right that we now further our knowledge about the impact of proposed dairy legislation in the Farm Bill by hearing from constituents from various regions in the nation. Last week, the Subcommittee held hearings in Holmen, Wisconsin and in Burlington, Vermont to receive input from the Mid-West and Northeastareas to hear from the dairy farmers in those areas. I appreciate having the opportunity to join Congressman Lewis in his congressional district in order to hear firsthand what his constituent's concerns are about the farm bill. I look forward to the insight that we will receive from these farmers today.

I appreciate the willingness of the witnesses to testify before our Subcommittee today about their views and concerns regarding future dairy legislation. I am sure that each of us will learn from your testimony and that it will assist the Subcommittee as they begin to consider such legislation. I am not going to open this hearing by telling you what the 1985 Farm Bill dairy provisions are going to look like. This hearing and the others like it are being held to find out what various regions of this nation want that bill to contain. I hope that upon the completion of these dairy hearings, each of us will have a better insight on the needs of the farmer and will begin to formulate a bill to address those needs as well as address the concerns of consumers, the need to reduce the deficit and respond to other interests as well.

I have continued to stress to representatives of the dairy industry during the recent hearings and while speaking to various organizations such as Mid-America Dairymen and Associated Milk Producers Inc., that it is vital that they recognize each other's concerns about a dairy program, and specifically the concerns of each of the regions. Throughout the hearings the past month, I have heard the concerns of the Southeast regarding the impact of thediversion program. I hope this hearing will further enlighten the Subcommittee on this region's particular concerns and problems, so that the entire dairy industry in this nation can work together towards a reasonable compromise. As you know it wasn't until the dairy groups across the nation decided that they must unite, that a bill was finally passed during the 98th Congress. Even after the dairy industry united, they faced stiff opposition from a unique coalition which included the Cattlemen's Association, the American Farm Bureau Federation, Ice Cream Manufacturers, and consumer organizations.

This year, not only will the entire dairy industry have to be united, but they will also have to negotiate and compete with other commodity and consumer groups in order to assure their needs are met in the 1985 Farm Bill. The challenge we face calls for not only unity among our farmers, but also for cooperation between government, consumers, and agribusiness leaders if an effective long-term policy is to be developed and implemented in the 1985 farm bill. The form that the 1985 Farm Bill eventually takes will have a significant impact on each and everyone in the nation. Considering that farmers account for only 2% of the total U.S. population, the voice of the needs of agriculture and our farmers could be overwhelmed, unless agricultural interests are united.

The problem of increasing federal outlays to subsidize farmers is especially significant in light of the massive federal deficit. I stress to you that the dairy support program will be one of the first programs under scrutiny, and because of this scrutiny it is important that we fully review what has occured in the dairy industry and exactly why Congress has continued to amend the provisions of the dairy support program, unlike other agricultural programs. In the 1985 Farm Bill, we should strive to establish a set of congressional guidelines which can accommodate the needs that may arise in an unforeseen or emergency situation, and thus eliminate the need for separate legislation to deal with many of the inevitable changes to come. This will avoid the "change of paddles in midstream." It is my hope that these hearings will provide us with a foundation in which dairy legislation can be based to assure that the needs of the dairy industry, of agriculture, of consumers, and of our nation are met.

Before we begin hearing from witnesses, I would like to thank Mr. Lewis' staff for their work in organizing this hearing. I can see by the agenda, that Mr. Lewis has carefully laid out a timetable and agenda which we will need to meet. I would like to stress that we would like to do everything possible to meet that schedule and I intend to do my best to keep us on schedule. I would ask my fellow colleagues if they have any opening statements, and welcome the first witness.

Mr. COELHO. Mr. Jeffords, any comments.

OPENING STATEMENT OF HON. JAMES M. JEFFORDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VERMONT

Mr. JEFFORDS. Thank you, Mr. Chairman. First of all, it is a pleasure to be here. It is a very different area, obviously, from Vermont. When I left it was about 32 degrees and some snow the night before. So, if that makes you feel any better, so be it. I know my staff didn't feel very good about me coming down here although I told them that it was a great sacrifice, they didn't believe me. I appreciate the weather and I appreciate being here.

First of all, I want to commend your congressman, Tom Lewis. He serves on our subcommittee, relative to dairy programs. And let me tell you, for someone who has been around all the farmers for some 11 years now and has been on the subcommittee and been the ranking member for that time, I have never known anyone who has done as much work or worked as hard to represent the people of this area; and especially the dairymen to see that what we do is not injurious to their interests. And I want to publicly express my deep appreciation for the hard work that he has done since he has been on the subcommittee with me. We've traveled around the country. That is because, as I am sure most of you are aware, that a hearing is quite different in different areas of the country. We were in Wisconsin. Most all of the milk there goes into manufacturing of cheese, butter, and other dairy products; and only a pretty small amount goes into milk directly consumed by the public. We were in Vermont a week ago. There it is about 50/50. Half of it goes into manufacturing and half of it goes to the Boston and New York markets for food milk consumption. And now we are down here, in the Southeast, where the reverse of the Wisconsin situation is true; where almost all of your milk goes to food consumption and very little into the manufacturing area. Therefore, we have tried to take into consideration the differences that a program will make to those various areas of the country and try to come out with a program which will make everybody happy. I know, for instance, in Wisconsin, we heard 14 witnesses and had 9 plans recommended. So I know about, in Vermont, we had about as many; and I don't know how it is down here for you, but for us——

Mr. COELHO. In Vermont, I want everybody to know that we heard from about 60 witnesses and we had about 85 plans.

Mr. JEFFORDS. So, I just want to let you know, this is not an easy job that we have—to try and find one that will make everybody happy. But we are going to do our best to try.

We do come through, this past year or 2 years, with a lot of credibility in Congress. It was the first time that Congress had been allowed—or our subcommittee, not Congress, I should say—had been allowed to really come up with a plan and to put it into effect. And it is the first plan that has worked. And it is the only really agricultural plan that met its goals last year. We cut our surpluses by somewhere between 40 and 50 percent. We knocked $1 billion off the cost of the program. We cleaned out the excessive stores of cheese and butter. And we allowed some to get out gracefully who wanted to get out, and we allowed a lot of others to survive who were on other programs. So we have a lot of credibility. We are now, though, faced with other problems which we are going to have to look forward to. That is why we are here today to have you give us your views of what the answers are.

Again, I want to thank, as the chairman did, Tom Lewis and his staff, for putting this hearing together; and to acknowledge the tremendous hospitality we've had since we've been here. You'll have all the rest of my time.

Mr. COELHO. Thank you very much.

Mr. Lewis, any comments that you might have.

OPENING STATEMENT OF HON. TOM LEWIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. LEWIS. I would like to take this opportunity to thank you and the gentleman from Vermont, Mr. Jeffords, for agreeing to hold this hearing. We are fortunate in Okeechobee, to have with us today Congressman Coelho and Congressman Jeffords, who are known as the experts in the dairy area. They come from two diverse areas. Last week when I was in Vermont, I tasted some of that 20 or 30 degree weather and was glad to get back here to Florida. I promised Jim that when he got down here we would have some nice, balmy weather for him.

We all recognize that there a number of flaws in the dairy program. This subcommittee—as Chairman Coelho has brought out—has been meeting all over the country and will hold additional field hearings in the weeks to come to find out how we can eliminate the flaws in the current dairy program.

Today, I want to discuss such topics as milk marketing orders; the effects of the 1983 dairy diversion program; and the impact of the administration's proposed dairy program for 1985—which is already causing us to take a whole new economic outlook. However, what I am more interested in, and what concerns me the most is the people in this auditorium and how you feel about the ideas that are being proposed by the administration as well as any other information you can provide for the record to help us come up with a more efficient dairy program for the ensuing years.

I have learned, from some of the other hearings, what other farmers want. As the chairman mentioned earlier we had 60 witnesses and 85 programs last week in Vermont. I hope that we can get these thoughts and ideas down into one, solidified program before we finish.

Again, Mr. Chairman, I want to thank you for bringing the subcommittee to Okeechobee. This is the dairyland of Florida and the Southeast and it is in the heart of my district. I look forward to hearing the excellent testimony today. Thank you again, sir.

[The prepared statement of Mr. Lewis follows:]

OPENING STATEMENT
OF THE
HONORABLE TOM LEWIS
U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON
LIVESTOCK, DAIRY AND POULTRY
APRIL 19, 1985

MR. CHAIRMAN, LET ME TAKE THIS OPPORTUNITY TO THANK YOU AND THE GENTLEMEN FROM VERMONT, MR. JEFFORDS, FOR AGREEING TO BRING THE SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY TO OKEECHOBEE.

NO DOUBT, WE ARE ALL TOO AWARE OF THE FLAWS WHICH EXIST IN OUR CURRENT DAIRY PROGRAM. OVER THE PAST SEVERAL WEEKS, MEMBERS OF THIS SUBCOMMITTEE HAVE TRAVELED CROSS-COUNTRY IN AN EFFORT TO LEARN FIRST-HAND, FROM DAIRYMEN LIKE THOSE ASSEMBLED HERE, HOW WE CAN GO ABOUT CORRECTING THESE FLAWS.

TODAY WE WILL TAKE A CLOSER LOOK AT THE SOUTHEASTERN DAIRY INDUSTRY, ITS UNIQUE QUALITIES, AND ITS SPECIALIZED NEEDS. IN PARTICULAR, I HOPE TO DISCUSS SUCH TOPICS AS MILK MARKETING ORDERS, THE EFFECTS OF THE 1983 DAIRY DIVERSION PROGRAM, AND THE POSSIBLE IMPACT OF THE ADMINISTRATION'S PROPOSED DAIRY PROGRAM FOR THE 1985 FARM BILL -- WHICH IS ALREADY TAKING ON A NEW LOOK AS ECONOMIC, POLITICAL AND SOCIAL REALITIES BEGIN TO SINK IN.

MORE IMPORTANTLY, I WANT TO HEAR THE THOUGHTS AND CONCERNS OF THE GOOD PEOPLE ASSEMBLED IN THIS AUDITORIUM. THESE ARE THE INDIVIDUALS WHO HAVE TO LIVE WITH THE POLICY WE, THEIR ELECTED OFFICIALS, CREATE IN WASHINGTON. I BELIEVE IT IS ONLY FITTING THAT THOSE WHO HAVE TO LIVE BY THE RULES HAVE THIS OPPORTUNITY TO HELP SET THE RULES.

I HAVE LEARNED ALREADY, FROM OUR PREVIOUS HEARINGS, THAT DAIRY FARMERS WANT WHAT EVERYONE ELSE WANTS. THEY WANT STABILITY IN THEIR LIVES. THEY WANT AN IDEA OF WHAT THE FUTURE HAS IN STORE FOR THEM -- NOT JUST SIX MONTHS AT A TIME, LIKE IT HAS BEEN FOR THE PAST SEVERAL YEARS.

MR. CHAIRMAN, I APPRECIATE THE EARNEST AND HARD WORK WHICH YOU AND THE RANKING MINORITY MEMBER HAVE DISPLAYED OVER THE PAST SEVERAL MONTHS. THIS SUBCOMMITTEE HAS A GOOD DEAL OF WORK AHEAD, IF WE ARE TO DEVELOP A COMPREHENSIVE, FAIR AND COMPETITIVE NATIONAL DAIRY PROGRAM. UNDER THE DIRECTION OF LEADERS LIKE YOU, I AM CERTAIN THAT SUCH A DAIRY PROGRAM WILL BE INCLUDED IN THE 1985 FARM BILL.

AGAIN MR. CHAIRMAN, THANK YOU FOR AGREEING TO HOLD THIS FIELD HEARING. I LOOK FORWARD TO THE TESTIMONY.

Mr. COELHO. Thank you, Mr. Lewis. We appreciate your inviting us again and I might add, for the record, that as one who was born and raised on a dairy farm and I've milked many cows in my life and it is very heartening to have colleagues of mine who are sincerely interested in the dairy industry. And Tom is, and I appreciate that and I applaud him for it.

We will begin our testimony. Again, I want to stress that the 5-minute rule is in effect. Please summarize your statement. We are interested in knowing about this area as much as possible, recognizing of course, that we have five basic regions to worry about. Not only do we in the dairy industry, have differing problems, but at some point this industry has to get united, like in the next couple of weeks, in order to come up with a program so that we can present it—but we also have to be able to compete with other agricultural interests. There is no way that the dairymen can put the cattlemen out of business; and there is no way that the dairy industry can ignore some of the processing interests, and so forth. We have to recognize that we have to get our own house in order and get united and then start dealing with the other interests so that we can put together an effective program that we can pass through the Congress. I am a consensus builder and I am interested in getting as many people together as possible in order to put through a program.

So, let's begin the process today with Mr. Red Larson. Mr. Larson, if you will come forward and start your testimony.

STATEMENT OF LOUIS E. "RED" LARSON, DAIRY FARMER, LARSON DAIRY, INC.

Mr. LARSON. I'd first like to correct the addendum here. It should show that I am a dairy farmer representing Larson Dairy; I do not represent MacArthur Farms.

I'd like to go through my prepared text, and I might run over a minute. I hope I can get through in 5 minutes.

Mr. Chairman, I am Louis E. "Red" Larson, a dairy farmer from Okeechobee, FL, a member of the board of directors of Independent Dairy Farmers' Association, a dairy marketing cooperative headquartered in Fort Lauderdale, FL. I am also a member of the executive committee of National Milk Producers Federation and I am the immediate past president of the federation.

I would like to thank the Subcommittee on Livestock, Dairy, and Poultry for holding this hearing in Okeechobee and for the opportunity to express myself on some facts about the dairy industry in the South and particularly about south Florida; and why the Southeast, and especially Florida, is unique in relation to the rest of the country in milk production.

In order to establish the uniqueness of Florida in its milk production in relation to the rest of the country, it is necessary to give a brief history of the formation of the dairy industry in Florida.

Climate in Florida has played a big role in the production of milk. When the early Spanish settlers came to our coast to establish a permanent settlement, they brought with them cattle that became their source of meat and milk. These native cattle or Piney Woods cattle, as they became known, have adapted themselves to our climate, our soil, and our poor range conditions and the insect problems. The most prevalent of all insects was the cattle fever tick.

The Piney Woods cattle were common on the farms and ranches in the South up until the early 1900's when other breeds were brought in to be crossed with them to try to make them more productive both in meat and milk. However, the new imported blood lines of breeding stock soon perished when exposed to the elements, but lost mainly to the cattle fever tick. It was believed it would not be possible to produce milk commercially in south Florida at all until the complete eradication of the fever tick, which took place in the 1920's and 1930's.

Through research from our land grant colleges, it was learned that we had many deficiencies in our soils. They suggested that we add certain minerals and trace elements to our fertilizers to make our pastures and our cattle more productive. Additionally, the bulk of our feed is imported and we, too, must add certain minerals to this feed.

With the gradual development of the cattle industry in the South, small dairies began to prosper around the towns and cities. These dairies generally produced and bottled their milk and delivered it to the local population. As these operations grew, some would only produce the grade A raw milk and sell it to their fellow dairymen who had a bottling operation. These became known as producer-handlers.

As the population grew and the dairy industry prospered in our Nation, large proprietary handlers would buy out some of these small producer-handlers and continue to purchase milk from their dairy farms. Some of the small producer-handlers formed cooperatives to be better able to compete with the larger dairy companies that had entered their markets.

But from these earliest times, there was never any attempt to produce milk for manufacturing use to make butter, powder, or cheese. Even today, there is little milk production used for byproducts except in times when we have an occasional surplus—usually in the spring months.

Growing population and seasonality of sales due to tourism are major factors in Florida. The South is normally a deficit milk production area. We have to import fluid milk from other milk-producing areas of the country to adequately supply the fluid needs of changing population.

The dairy farmers in the South have historically produced for the fluid needs of its market due to the high cost of production and marketing practices of the past. The early producer-handlers would only allow farmers to bring in the amount of milk that was needed for bottling purposes.

With the development of the State Milk Commission, the practice of individual handler pools for milk were maintained and the individual producer milk bases became established. With the passing of the State Milk Commission, which attempted to establish retail prices and then became politically very unpopular, we moved into another era with the formation of producer bargaining cooperatives.

These cooperatives petitioned for Federal milk marketing orders. The marketing orders now oversee most of the milk marketed in the South, making sure that all handlers pay the same price for grade A raw milk, that the butterfat is properly read and paid for, and that the milk used in the higher use classifications is evenly accounted for in the producer settlement pool.

We now have marketwide pools so that producers do not gain or lose with the movement of sales from one handler to another. The Federal order also attempts to price the milk so that there will be an adequate supply for the consumers.

Milk bases were formed by the members of the producer cooperatives. These milk bases were established by using the members' production of the past and carrying it forward as the market grew. In the beginning, these milk bases were very restrictive and dairymen would try to match their production to their class I milk sales quotas. The class II production generally returned our farmers less than the cost of production, so these milk bases helped to keep our production in line with the market needs.

Today, most dairymen operate with a volunteer cooperative base, which has been modified greatly. This type of base causes the overproducer to cutback in times of surplus as he must carry the major cost of disposing of the surplus milk; and during times of shortage, the underproducer must increase his production or carry the major cost of importing milk, often from as far away as the Midwest. This situation helps keep milk production for fluid market needs pretty much in balance except in times of very high feed cost or very low milk prices.

The dairy farms in Florida and the South today are basically very specialized operations. Most of them are large when compared to the average herd size in the Nation. They are growing more of their own feed but are still very much dependent on purchased ingredients from the Midwest. The PIK Program in 1983, followed by the drought of the same year, greatly increased the price of feed to the point of actually breaking some of the marginal producers. We must also compete for labor with other industries in our local areas to maintain an adequate staff of employees to produce milk of high quality standards.

Large dairy farms are very much concerned with environmental regulations. Environmental concerns include meeting the requirements of the Department of Natural Resources, Environmental Protection Agency, and Florida's Department of Environmental Regulation, as well as the various water management boards. Dairymen must spend large sums of money to properly dispose of dairy animal waste material so that dairy farming can live in harmony with its urban neighbors.

Most of these large operations are commercial family farms or family corporate farms. The farms are very capital intensive and most are now located out and away from the major population centers.

The geography of Florida and the South puts it a long distance from a major alternative supply of milk. When we do import milk during our seasonal shortages, the cost of the milk shipped in from the Midwest, plus the transportation cost exceeds the price of locally produced milk. Therefore, a strong dairy industry contributes to lower prices to the consumer.

I feel that this is what makes milk production unique here in the South and especially in Florida. Under normal circumstances, we can produce the fluid milk needs for our market and make a profit; but we cannot produce milk for byproducts profitably. This situation assures our local population of a fresh daily supply of locally produced milk and allows us to use our local resources to provide a good product both for the benefit of the consumer and the thriving agricultural industry of our section of the country.

I would briefly like to outline the 10 points that make up the reasons why we are unique in the South and south Florida:

First, the climate—we have very hot summers and occasionally hurricanes in the fall;

Second, our soil—available feeds—mainly dependent on purchased feeds;

Third, our many different insects;

Fourth, the seasonality of sales, with the peak of our tourist season being reached normally about the middle of February and dropping down to a low point in July and August;

Fifth, the consistent growing population we have here in Florida and the South;

Sixth, large intensive dairies with hired labor;

Seventh, environmental concerns—water and water management;

Eighth, profitable to produce fluid milk only;

Ninth, we are a deficit milk market; and

Tenth, due to our geography, we are a long distance from alternative supplies of milk.

[The prepared statement of Mr. Larson appears at the conclusion of the hearing.]

STATEMENT OF JOHN A. PEACHEY, DAIRY FARMER, SARASOTA, FL

Mr. **Peachey.** I'm John Peachey. I'm a dairy farmer from Sarasota, FL. I belong to Tampa Independent Dairy Farmers and I am a member of the board there. I'm going to speak on the impact of the diversion program in southeast Florida, my cooperative, and my dairy.

The 10 Southeastern States produce only 11 percent of the total U.S. milk supply, and signed up for 10.1 percent reduction in production. Georgia's production was down 8.4 percent in 1984 over 1983. In Florida, 51 percent of the producers, or 185 of the 360 producers, signed up for the diversion program, with an average reduction of 25 percent. The 400 million pounds of Florida's reduction, was the sixth largest in the United States. During the first 9 months of the program, Florida producers had signed up to reduce their production by 19.6 percent; while producers in Florida, not on the diversion program, increased their production by 9 percent.

I belong to Tampa Independent Dairy Farmers. When the corporate tax was imposed, we had around 100 members. By the time the diversion program was started we were down to 97 members. Fifty-seven of our members signed up for the diversion program and production was reduced by 19 percent over the previous 15 months. Tampa had a number of producers that could have qualified for the program if they had signed contracts.

During the program, Florida had a number of dairies that, because of financial problems, took chapter 11 bankruptcies. I think the reason producers in Tampa signed up the highest rates is because the management and staff did an excellent job on informing their members about the program. They made information available to members on their individual situations and worked with members so they could make the best decision for their dairy. This was done even when they knew it would reduce Tampa's income and could put our cooperative into severe financial binds.

I've been in the dairy business in the Sarasota area for 23 years. In 1983, we milked 340 cows and produced an average of 1,200 pounds of milk per day; which is the average size for a Florida dairy. I had planned a 10-percent increase to offset the dairy tax that was imposed and because of increased sales. In September 1983 I changed this because of the $1 per hundredweight tax on the milk. All the feed prices jumped by a $1 per hundredweight caused by the payment in kind program and the shortage of feed. At the same time, another supplier came into the market causing the price of milk to drop $1 per hundredweight. These factors caused my income to drop by one-fifth, with the same overhead. And I, like many Florida dairymen, looked for a way to lose the least amount of money and survive. I could not qualify for the refunds given from September to November. In September I started a heavy culling program to meet cash-flow problems and also to get credit for the diversion program. I did this because I was afraid that after the program started that these prices would take a sharp drop and feed prices would be high until the new crop season. I planned a 10 percent signup but found this would only recover the tax I paid in. I signed for an 18-percent reduction and for the first two quarters reduced by 22 percent. The third, fourth, and fifth quarters—with improved milk prices and lower feed costs—I started increasing production and by the end of the fifth quarter my production equaled 1982's production.

During the program, I averaged a 16.8-percent reduction and collected $61,000 in diversion money. The tax I paid came to $30,000, and the dairy still averaged a loss of $1,200 per month for the period from September 1983 to October 1985.

We have two sons in college and four other children attending local schools, and tuition costs are around $17,000 a year. To meet these expenses and losses of the dairy, I borrowed on the cash value of my life insurance, knowing for a time I would only have to pay interest on the money. I used two sources of credit: a commercial bank and the farm credit system. I had to call, on many times, to delay payments or refinance what I had just paid. I borrowed money for a silage crop and found that it is hard to borrow if you can't give a time when your cash-flow will improve.

Today, with improvements in Florida's milk market, I would not be interested in a diversion program. I do not think that the diversion program should be used in a fluid market because too many problems are created bringing milk in to meet market needs and expenses is too great to Florida producers who pay all import and export costs on milk.

Cooperatives and manufacturing areas charge $1.50 to $2.50 premimum on milk sent to fluid markets and say they make more money selling crops to the Government rather than to sell it to fluid markets. I think the Government should establish a quota for products they would buy and after that this might reduce what they pay for butter, cheese, and powder so that plants would either seek new markets or curtail production. I think one reason for the small signup in manufacturing areas was that the cooperatives would tell their members, in public meetings, to cut production and then tell members, on an individual basis, that they needed the extra milk to keep their plants profitable. Thank you.

Mr. COELHO. Thank you, Mr. Peachey.

Mr. Jeffords.

Mr. JEFFORDS. I would like to inquire as to the problems that you are referring about, Mr. Peachey.

In the event that we did have another diversion program, as to what could be done to rectify those problems that occurred in the Southeast—and I certainly ask Mr. Larson also—the original proposal had a provision which would have allowed the Secretary to make regional adjustments in contracts if it appeared that there would be a shortfall of milk in a particular region. It was this region that objected most strenuously to that provision and it was taken out. I would ask you, as to whether or not such a provision, with perhaps some guidelines and some limits on it, would have assisted this area in some of the problems which you referred to?

Mr. PEACHEY. I think, probably, it would. I think the Southeast was aware that it was politically impossible to get a region and cut it's diversion program.

Mr. LARSON. In answer to that question, Congressman, I feel like even if we had that type of language in the law when it was finally perfected, it probably would not have eliminated the shortage that we suffered in the marketing year of 1983-84 due to the economic situation that the dairy farmers found themselves in, in the South and Southeast. Many dairymen cut back—didn't even signup on the program because of economics. Dairymen were selling their cows to pay their feed bills. They couldn't afford to continue on in business. They couldn't get credit. They had to sell so many cows every week because that feedman wanted to get his feed check and I think economics probably played a bigger part in the severe cutbacks. I don't think the dairymen in the South, and in particular in Florida, are all that patriotic. I think they were putting the pencil to the diversion program and found that they could survive, or at least have the safety net over them during that period of time when feed went up drastically due to the PIK Program on feed grains and the drought that ensued behind it when our feed prices went up about 25 percent from what they had been. And at the same time, there was milk brought into Florida from a source that hadn't normally been coming in and this was created because the closing of some cheese plants in the Midsouth. Those producers found themselves without a home for their milk and much of that milk trickled on down into Florida.

Mr. JEFFORDS. That was the reason, then, that you were not able to get an above order price?

Mr. LARSON. The competitive situation within the State—we had an over order price. And that price dropped $1.05 on September 1, 1983.

Mr. JEFFORDS. And it never came back?

Mr. LARSON. We didn't get it back until, I believe it was about 19—September 1984.

Mr. JEFFORDS. And do you still have an over order price?

Mr. LARSON. We have a substantial over order price—yes.

Mr. JEFFORDS. Well, then, if that's the case there has been some discussion about a differential to be added to the milk orders to take care of the regional cost-of-production problems and whatever other factors seem to be the problem, and to a lack of supply—are you saying that that really wouldn't work, or you already have it, or how does that play into the situation?

Mr. LARSON. I'll attempt to try to answer that. The proposal, I think, that has recently been brought up to change the differentials in the transportation of the milk—which that hasn't been corrected in over 20 years and certainly transportation costs have gone up greatly since then—would probably cause milk to move easier than it does now.

Mr. JEFFORDS. Would it be sufficient to correct your problem, here, or not?

Mr. LARSON. We are not real sure whether it would correct our problem or create a bigger one.

Mr. JEFFORDS. That's what I wondered. If you just work on the transportation differential, you may end up with inviting more milk flowing in from outside and having more dislocations in this area.

Mr. LARSON. Yes, we have a real concern over that.

Mr. JEFFORDS. Thank you.

Mr. COELHO. Mr. Lewis.

Mr. LEWIS. Mr. Larson, you touched on the impact of marketing orders on some of these dairy industries?

Mr. LARSON. Yes.

Mr. LEWIS. There is discussion right now as to revising the current marketing order program. What are your thoughts on any revisions on the current system, and what, in your judgment, can Florida live with?

Mr. LARSON. The market order system has served the dairy industry and consuming public of this country probably as well as any program that has ever been in place over the years. We—if you go back and study the history of milk marketing, going back to the turn of the century, and the fact that our Congress and our Nation actually established a national policy—a food policy—that included the fact that we should have an abundant, or good available supply of fresh milk. Going back to that age before pasteurization when they used to go around with buckets, people used to come out with a gallon can and dip out their gallon of milk and tuberculosis was prevalent in those days and fever, and so forth. And with all the regulations that they have now for the safety and public health in place in the industry—and probably the dairy industry is one of the most regulated there is—the order program has been very successful. The fact that it is under scrutiny now and probably needs to be updated in some areas—and I think that's probably true—but the number of orders we have, some years back, that have been cut and meshed. Areas have been merged so that we have fewer orders. One other factor in the milk order program—I think it has been conducted all these years without any scandal or anything that caused any embarrassment to our country, or to our industry, or to our Government; and I strongly support it.

Mr. Lewis. What are your thoughts on a regionalized dairy program versus an all-encompassing national program?

Mr. Larson. As Mr. Peachey said, the fact of trying to regionalize a program and get total support throughout the country is kinda tough to do in the political arena that you fellows work in up there. It's possible, and it probably is needed, in areas of the country that have very, very deficit markets. I know in the milk diversion program, the States of Hawaii and Alaska were left out. That's regionalization, as I see it.

Mr. Lewis. Thank you, Mr. Larson. Mr. Peachey, do you see the Southeast dairy industry willing to accept another diversion program, such as we had in 1983?

Mr. Peachey. No, not really. I know that there are a couple of proposals that—I don't think food producers should take the total cost for manufacturing areas.

Mr. Lewis. Mr. Peachey, thank you. Thank you, Mr. Chairman.

Mr. Coelho. Mr. Larson, you discussed, with Mr. Jeffords, a little bit on the transportation differentials on marketing orders versus the fact that the law permits the Department to make the adjustments for transportation and so forth; and the difficulties that you might have if those changes were made. Some of the dairymen from this particular region have advocated to me that if we could make some changes in those differentials, that that would make a major difference for them and would be helpful to them and they would be supportive of the bill. You put a different light on it and make it more complicated, I would say, by your comments. I would like you to discuss a little bit more about where the problems develop as a result of the changes. I think we would like to have more of that for the record.

Mr. Larson. All right. Probably the reason that this problem has not been addressed for the past 20 years is that no administration or no Government agency wants to be charged by the consuming public with increasing the price of milk. And if you change the differentials for transportation, they couldn't do anything but go up. Transportation costs have probably quadrupled in the last 20 years. So then, the change—if this was affected through the hearing process, as it normally is—then the established classroom, Federal order prices would go higher. Where there are no over order premiums negotiated by cooperatives or farmer groups with the handlers, then the price of milk would rise for the consumers. You would have some objections this way. The current situation allows producer groups to negotiate in a competitive area with handlers for an over order price from the base that we now have.

I think that we agree that it is out of date. As to how much good it would do in the long run, it could ultimately probably allow some milk that can't enter the market now because of lowered differentials to flow Southward or to flow even into some other areas where milk supplies are normally deficit.

Mr. COELHO. Are you basically opposed to milk from other parts of the area coming into this area, is that what you are saying?

Mr. LARSON. No; I feel that our industry can compete with other areas of the country in normal years. And 1983 was not a normal year. We are totally dependent on probably 85 percent of our purchase feed. And when the feed prices escalate such as they did then, at the same time we had the 50 cents, and then the $1 tax imposed on us by the Government; and our mailbox price—as most of us farmers like to call our milk check when we get it—not the announced price but what we have left after the deductions come out and that Government 50 cents and the $1 that they took out for several months really lowered our check at a time that feed prices escalated and our competitive situation caused milk prices to go down. We couldn't compete. And anybody else shipping in then would be shipping in at a loss when you add transportation to what they could sell the milk in that area of the country to all divergent sources for manufacturing purposes, they would actually lose money on.

Supplemental milk supplies, many times in the fall, will reach as high as $21 a hundredweight by the time it travels from Wisconsin and gets into the plants in Florida. The price that we get for our milk normally is from $16 to $17 a hundredweight for class formula. And so you see, there is a $2 to $3 a hundredweight loss when you start rolling this milk in on spot basis. Now, on a permanent basis, it probably can be done with a closer margin on a year-round setup with a producer organization in some other part of the country. But still, it is going to cost more than we could produce milk for locally for a fresh flow of milk except when we have a very unusual situation such as happened during the PIK Program in 1983 with feed grain prices going through the roof.

Mr. COELHO. Thank you. Mr. Peachey, you basically say that the dairy farmers in this area would not support a diversion program. Are you saying, even as a last ditch effort after you go through the trigger mechanism with reductions and everything else, that if it still doesn't work that you would still oppose as the final resort, triggering in a diversion program; and if you do oppose that, what suggestion do you have?

Mr. PEACHEY. If I was faced with that as the only and final alternative and the worse one——

Mr. COELHO. What I am getting at is a concessionable alternative, just——

Mr. PEACHEY. I would have to look at the diversion program and see what kind of things it has.

Mr. COELHO. So then, you are saying, in effect, that if you were in our shoes, that you might go with a diversion program? I think that the point that I am trying to make is that, as I talk to dairy farmers all over, if we come up with a diversion program as the last alternative—and that is all we are talking about—the question is to whether or not to have a diversion program at all. We only have a diversion program if everything else fails; so that we don't, in effect, change the dairy law every other year which is the worst thing that we can do for you as dairy farmers and I hope you agree with that. But, if we had that in there, as the last alternative and if that doesn't work and you are opposed to that and you fought that, then your alternative would probably be the administration's program which would—I think—from what I am told all over the country—most dairy farmers would not like because it pretty well destroys the program.

Mr. Larson talks about his being for the marketing order and I assume that you will support the marketing order as well.

Mr. PEACHEY. Yes, sir.

Mr. COELHO. So, if your alternative is the two, which one would you support?

Mr. PEACHEY. I would tend to support the diversion program. Let me illustrate a little. A number of years ago the States of Wisconsin and Minnesota asked us to get into a teeth promotion program so they could bring their production in line over a period of time. We supported it. Of course they increased their milk production to meet sales. I just saw the last on California's increase and I think they will go to 6-percent increase on a 5-percent increase on last year. I don't know what would actually stop that type of production from increasing.

Mr. COELHO. Are you in favor of the quota program?

Mr. PEACHEY. No; because the Southeast will be killed.

Mr. COELHO. So, what is your alternative?

Mr. PEACHEY. I guess a diversion is what we will end up with.

Mr. COELHO. Does that mean that if you did end up that, that you people would—in this area of the country—recommend to your legislators, like Mr. Lewis, that they vote against the bill?

Mr. PEACHEY. Which bill?

Mr. COELHO. The bill with the diversion program in it.

Mr. PEACHEY. No, I don't think we would. The only thing is, I think, the manufacturing areas that produce a lot of manufacturing products should bear a greater cost of taking care of that. I would not be opposed to a diversion program that they would tax a percentage of all milk and then let the manufacturing areas carry a greater burden for it.

Mr. COELHO. Thank you Mr. Peachey. Mr. Larson, did you want to say something?

Mr. LARSON. Yes, if I can. I'd like to comment on the question you just asked there, because the diversion program, in my opinion, has been a success. And the haste with which our producers had to address it and signup or not signup and make decisions that effected us for 15 months and one of the biggest problems with it was that it was just too short. It didn't allow producers to make the kind of planning that they need to do. I really think, that as a last resort—as you address it—or I can it is part four of the program we'd like to develop, I think it should be in there. I think it's a novel idea that allows commodity groups to underwrite the costs of a program that they benefit from. I really think the areas of the country that didn't participate in it very heavily on the one that we just completed, probably many of them would participate if it rolled around again. I think they would take another look at it.

Mr. LEWIS. I think you would see a difference, for instance, if it did come back again.

Mr. Coelho. Thank you very much. I appreciate the testimony and I thought it was very helpful.

I would now like to have Mr. Ferrell, Mr. Berman, and Mr. VanWagner to come up, please.

Mr. Ferrell, you may start.

STATEMENT OF SAM T. FERRELL, DAIRY FARMER, OKEECHOBEE, FL

Mr. Ferrell. Mr. Lewis, fellow congressmen, my name is Sam Ferrell, and I milk 300 head of cattle on a farm leased from my family. I might add that we have one of the smaller herds in south Florida.

Mr. Lewis. What is the size of your herd?

Mr. Ferrell. 300 cows. We were one of the few dairies in our region not qualified for the diversion program. I have been in the dairy business on my own for 3 years, but my family has been associated in the dairy industry in Florida for over 50 years.

What I would like to see in the 1985 farm bill is a few very simple solutions to a very complex problem. What I would like to see most of all is a return to market stability in grain and dairy products so that I could make a reasonable return on my investment, or I would like to see most of all in the 1985 farm bill something that would give us a return to market stability in grain and dairy products. So that I could make a reasonable return on my investment. I don't personally think that we can have market stability in the next few years without some kind of minimum support programs in grain and dairy products. And myself, as a small and relatively new farmer in the Southeast, could not survive if we continue to have the uncertainties that we have faced in the last 2 years.

I also believe that the Florida consumer is entitled to an adequate supply of quality fresh milk. That cannot be done if the consumers milk is produced in the Midwest or some other region of the country and shipped to Florida.

And last, with some sort of minimum support programs in tact, I feel that we dairymen in the Southeast still have different problems and needs in production cost and marketing so therefore should have some kind of regionalization in our milk marketing.

I heard a song yesterday by Charlie Pride that may depict my situation best of all, and it said that America can put a man on the moon, but it can't keep the family on the farm so something has to be done.

Gentlemen, thank you.

STATEMENT OF WILLIAM B. BERMAN, DAVIE DAIRY, INC., OKEECHOBEE, FL

Mr. Berman. My name is Bill Berman from Davie Dairy which is here in Okeechobee. Our dairy was founded 25 years ago by my late father and my partner, J.R. Hazel. We presently milk 1,300 cows at two milking facilities and ship 7,000 gallons of milk a day. The operation provides a livelihood for 30 families and the employees live on the dairy in CBS houses that we provide.

Our operation differs from those in other parts of the country. Some of these differences are:

First, we purchase all the feed grain that we use from other areas of the United States. This results in feed cost being a larger part of our farm budget than in other areas. When feed costs are high for long periods of time, the impact on our bottom line is very detrimental.

Second, during the period from May through September our cows suffer greatly from the extreme heat, humidity, and mud that are found in south Florida. This causes much lower milk production and problems with reproduction. We have come to think of these months as the break-even months and this has a great impact on the cost of producing milk in Florida. Each of us in Florida are attempting to cope with these problems but it is not easy.

Third, we compensate for these differences by producing milk only for the local fluid market. Except for short periods of seasonal surplus, we try to stay in balance with the needs of our market. This results in high class I utilization and higher blend prices.

I will limit my comments to general ideas since our co-op leaders will deal with specifics. First of all, we should keep in mind why the dairy industry has a problem. Some industries get into trouble because they have not modernized or become more efficient. The dairy industry has problems because it has become much more efficient. We have cut the national dairy herd in half in the last 25 years but still produce more milk than before. Dairymen must learn to promote milk as efficiently as they produce it.

My partner, Mr. Hazel, has been in the dairy business in Florida for over 50 years and he asked me to convey his ideas. He likes to tell stories from way back and one of these stories is when he would bring his milk to the plant in Miami and they would tell him they didn't need that milk on that particular day—and it would have to be dumped out. Although most young dairymen would find this story amusing but just ancient history, the truth is that without current dairy legislation this type of thing could happen again.

There are two parts of current dairy legislation that are so basic that many of us take them for granted. I am talking about the right of dairy farmers to effectively market their milk through cooperatives and the Federal milk marketing orders. Mr. Hazel recognizes these things are essential to prevent a return to the situation he remembers but doesn't want to repeat.

The proposals made by the administration regarding the Milk Price Support Program remind me of a person trying to repair a fine watch with a sledgehammer. All dairymen recognize that the program needs major adjustment, but to sledgehammer a basically sound system that has worked for many years makes no sense. The proposals developed by the National Milk Federation were reached after months of intensive debate and study. Dairymen from all regions of the country have reached a consensus that these proposals will best serve all of us as a group. I think Congress should use this proposal as a model for developing new legislation for the following reasons. First, it will reduce Government costs to reasonable levels. It will also provide the stability that is needed for farmers to continue in business and provide a dependable supply of milk for the consumers at a reasonable price.

Finally, I realize that in most systems of government no one would ask the farmer for his ideas on new policies.

All of us appreciate the opportunity to be heard here today.

Thank you.

STATEMENT OF EARL J. VANWAGNER, DAIRY FARMER, CITRA, FL

Mr. VANWAGNER. Thank you for having me here today. I am a dairy farmer with about 20 years experience. I come, originally, from Massachusetts. I farmed up there under a blank price program. And I come down here under a base program that I endorse highly. I know it would be a hard thing to swallow nationwide; but it works. I am one of the frustrated people with these new programs coming out, turn you this way and that way. I want a program that has got some long-term implications that we can depend on for the long term. This 15-month deal—it solved our short-term problem—it didn't solve our long term. Here we are looking at the long term again. We've got to have—the next program—whatever it may be—let's hope it's a long-term program so we can make some long-term planning. We all have sons and other associates in the business. We need some long-term planning.

I'll say what I've got to say here.

Mr. COELHO. That was the best thing you could say.

Mr. VANWAGNER. I've got simple solutions.

My name is Earl VanWagner. I have been a dairy farmer for over 20 years. For nearly half of that time, I farmed in Massachusetts where the class I usage of milk was between 50 and 60 percent. Since 1971 I have been farming here in Florida where a milk base program has been in effect for many years. Our class I usage is in excess of 90 percent and the base program is structured to encourage production in the market in milk in the deficit months and penalize overproduction in the spring flush-production months. On a year-round basis, Florida is a milk deficit State. As you may know, the milk diversion program created many supply problems in the Southeast, especially here in Florida.

In late 1983, feed costs were at an all-time high, our milk price had gone down 95 cents per hundredweight and the Government was taking $1 per hundredweight. These factors were responsible for 25 percent of our Florida dairymen signing up for the diversion program.

And I will go along with Mr. Larson at this point, and that was a little bit. At this point the farmers signed up because it was a salvation of their farms. It wasn't because they wanted to cut production. It was salvation time, causing a lot of decrease in Florida milk production. Hundreds of semitruckloads of milk were imported from as far away as Wisconsin. There, a premium of $2.50 a hundredweight on top of the Wisconsin class I price had to be paid in order to obtain the milk. When this milk reached Miami, it cost $22 a hundredweight. Florida farmers, who were underproducing their milk base were required to pay the additional import costs for this milk while at the same time paying the Government 50 cents a hundredweight to support the milk diversion program.

I use this as an example to support the following statement: A dairy support program instituted on a national basis, without regard to regional differences, can create inequities and even larger problems than the program endeavors to resolve.

The National Milk Producers Federation is vigorously encouraging adoption of a dairy program with a support level pricing index focused on an economic basis and a standby program. The following is a direct quote from NMPF's News for Dairy Cooperatives, March 25, 1985:

> The standby program would be very much like the current milk diversion program. If the adjusted support price would generate 5 to 7 billion pounds of surplus, the Secretary would have the discretion to implement a paid diversion program and an assessment on all milk which would cover all the costs of the program in excess of the cost of purchasing and storing 5 billion pounds.

And here we go again, with another program. Not only would all dairymen again be supporting nonproduction, our Florida dairymen would be funding the purchase of surplus milk while purchasing milk elsewhere, at a premium, in order to maintain an adequate supply to Florida consumers.

In my opinion, there are two ways to control production of a surplus commodity. One, set the support price at a level that does not yield a profit to the producer. Or, two, set production quotas. Since, in the case of milk quotas, the Government does not want to be in a business of creating assets for dairy farmers, it would seem that the first option should be implemented. We need a program that sets a floor price for milk in order to keep stability in the market price system.

The erratic price swings that would result from an open supply and demand market would benefit neither the dairy industry nor the consumer. A support price set below the cost of production would not create a market for surplus milk and would discourage overproduction. The proposed NMPF Program would trigger another diversion program "if the adjusted price support would generate * * * a surplus." If NMPF's pricing index method of setting the support price is a workable way of controlling overproduction, they would not need to be concerned about it generating a surplus. The milk diversion program was a quick fix for milk production that went out of control when selling to the Government became profitable for dairy farmers. We do not need another program that pays farmers for not producing a commodity. An effective dairy support program, with a support price set to encourage production in times of short supply and discourage production in times of impending surplus does not generate a surplus.

On July 1, the price support should be lowered 50 cents to $11.60 a hundredweight. This level should clear the market of surplus milk, lower the price to consumers, and at the same time give a long-term message to dairy farmers that is a direct message for long-term planning.

I urge you to consider the regional implications of any dairy program to come before your subcommittee as well as the national budgetary implications.

Thank you.

Mr. COELHO. Thank you. Mr. Jeffords.

Mr. **Jeffords**. Yes; I would like to ask a question regarding the differences in your region here, if I can. First of all, you have to keep in mind, in case you hadn't heard, we have a little problem in Washington called the $200 billion deficit. I want to give you a little idea of how that has an implication on our programs. We still have a commitment that we will come in with a plan which will not increase our problem in that area. That means we have to come in with a program which will cost less than this—about $1.5 billion to the dairy program.

A normal program—let's say normal which we haven't seen in many years, I don't know why it is called normal—but where we are only purchasing that amount of milk which we use in our Government programs will cost us somewhere around $600 or $700 million. That is for your school lunches and all that sort of thing. We're still about double what we ought to be down to the program. But we have to protect ourselves from coasting above $1.55 billion or else we're really restricted any way. You can't pass a bill that goes over budget limitations.

If we go with the April—I mean with the July 1—price cut, we'll be able to live within the $1.55 billion and that means that we're going to have to hold that program for 3 to 4 years before we get down to so-called normal situation that covers purchases. We may well run over—in production increases—we may well bounce above—the projections may show us above that budget limit.

I'll give you some things we have to work with here. The reason for bringing that out is that we've got to try to come up with a program which may mean to require a diversion program in order to get the budget insurance that we know will go along that level. And so I want to set that part for us so you understand what we may be faced with and ask you this question

Mr. **VanWagner**. What you are saying, is a last ditch effort? You are not saying a diversion program out front?

Mr. **Jeffords**. No, that's right. I'm saying that if the projections come in—as the USDA projections come in—no you have to remember that the USDA always has two or three sets of figures; but if they want their own program which is to do away with the Government program period, they will come in with projections which will show that you are going to have to cut the price down to $11.10 or to $10 in order to stay within the budget. We have that to worry about. We have our own figurer who will figure differently, we hope. And so, we have to worry about those things.

But presuming that as a last ditch effort, we put in a diversion program, my question is: What adjustments should we make to it to make it work in this area better than it did before? You may have heard me say before that one of the reasons we have hearings regionally was to allow for regional modifications in the event there was going to be a shortage. But what would you suggest, if anything, would be possible to make that program work better in your region?

You don't have to put yourself in the program, you just have to say, if we get stuck with it, if that's the way you want to phrase it, this is what you ought to do to make it better.

Mr. **Berman**. There are a couple of possibilities. First of all, let me say that my farm was also on the milk diversion program. I feel that it helped us. I don't think it has permanently damaged the Florida dairymen at all. It was a great inconvenience. But I don't think it hurt us permanently and I wouldn't be afraid of—if, like you say, it being a last ditch effort—that doesn't bother me in the least. As far as regionalizing it, you could exempt certain areas of the country that are deficit markets. You could have different indices. In other words, instead of paying in 50 cents and getting out $10, you could pay in less and get out less. So it would be less attractive to go into it. It would get very complicated that way and I don't know if politically it would be practical. But that is one thing you can do. I, personally, think that if it's going to be only as a—like you say—a budget-saving item, I don't think that the Florida dairymen would object to it being set up the way it was set up the last time. I might be wrong. You'll hear from more people later.

Mr. **Jeffords**. Of course, the co-ops would have a different view on that. They have got to keep their processing plants going so that creates——

Mr. **Berman**. You are talking about the co-ops in the Midwest?

Mr. **Jeffords**. No; I am talking about down here.

Mr. **Berman**. Generally the co-ops do not process the milk. They have full supply contracts and they have to import the milk and provide it to the customers and that is a nuisance; but it's not impossible.

Mr. **Jeffords**. Anyone else like to say anything?

Mr. **Coelho**. Mr. Lewis.

Mr. **Lewis**. Yes; Mr. VanWagner, you said that you would like to cut production quotas?

Mr. **VanWagner**. The greatest thing that ever happened in Florida. I came from the Northeast, from a blend market. I was trapped into a blend market. I had to produce for the marketplace so I could get a blend price. In Florida, or in a State that has a quota program, you can purchase or build a quota and you know you are going to get the class I price because the milk is needed in the marketplace. I think it would be an excellent program for a nationwide system. But it seems to fall on deaf ears because it creates an asset that has to be transferred among farmers. Like we transfer among Florida farmers. We transfer a business quota. And all a quota does is place a production of a certain amount of milk that the marketplace needs. And it gets the Government out of it and it saves taxpayers money and it saves surpluses. We don't have a surplus in Florida, as you well know.

Mr. **Lewis**. How do you propose to do this in the various regions—with the problems that we have—in the United States where some States do not produce a surplus, while other States are surplus States?

Mr. **Berman**. You see, we've always talked about a class I stage program in Florida. That's what we have, a class I base. We do need butter, cheese, and powder. So naturally, we could have a class I base and we could have a class II base. There's no reason in the world we couldn't have two certain bases. One, naturally, would be at a premium price versus the other one. We're only over about 4 billion tons of milk right now. Is that the number we are going to be over—over what we really need in this country?

Mr. **Lewis**. Somewhere in that area.

Mr. **Berman**. All right. We are over 4 billion pounds, and we are letting that 4 billion pounds beat the tar out of us in the marketplace. And what do you do with that milk if we do purchase milk—we kick into the diversion. We pay the 15 cents per hundred. You have products here. What do you do with the product that is hanging over your head? We've learned that with grain purchases. If you have a product, I don't care if it is in the cupboard, you know it's there and it can come out. So, what I am saying, if you have product, it can come on the marketplace. It holds your whole marketplace down. It is not a good thing—I don't care who owns the product—it's there and it can be saleable. That's my opinion.

Mr. **Lewis**. Thank you. Mr. Ferrell.

Mr. **VanWagner**. I just want to say that I disagree with that feeling personally the way I understand it. I think it would be bad for Florida dairymen to have a national base plan or two-tier pricing system for several reasons. Like Mr. Larson said, Florida is a growing population area and I want the Florida dairymen to be able to grow with the market. I don't want to be tied into a base because the areas of the country that are producing surplus milk obviously you will never have any growth in your base. So the Florida dairymen will be stuck. That is my opinion on that.

Mr. **Coelho**. Mr. Ferrell.

Mr. **Ferrell**. I'd like to comment on Mr. Jeffords' question. I didn't qualify for that Government diversion program. I didn't have the base history. If something was to come up in 1 or 2 years from now, my suggestion is to get more of the dairymen to qualify for the diversion program; because if anybody needed some extra help, I did. But I didn't qualify. So that might be something you could think about.

Mr. **Jeffords**. We appreciate that. I have to point out, of course, that which worries me is that what you run up against is that so many of those that were with it found it to be advantageous that we may get an oversubscription which means you may end up significant, if not substantial, reductions in the amount that you can anticipate so I don't know but I appreciate your words and I think that this next time around we'll have enough input—if we do put one through—to have it the way that you suggested.

Mr. **Lewis**. I just have one quick question, Mr. Chairman. Mr. Ferrell, you mentioned in your testimony that you would like to see something in the 1985 farm bill that provides stability for grain and dairy products and we need to make a reasonable return on your investment. What would you like to see in the 1985 farm bill?

Mr. **Ferrell**. I don't want to see a 40-percent cutback in the grain crop and I don't want to see $13.60 minimum support prices. I want to see whether or not they are minimum. They are not a consumed—we've got a market here that my father taught me for 36 years: When our market grew, we grew. When our market stalemated, we didn't grow anymore. We punished our market and I don't want to see the grains get so high that the dairymen can't make any money. I know that they're probably lower now than they should be. I would just like to see a happy medium, everybody make a little bit of money.

Mr. **Lewis**. Mr. Ferrell, thank you. Thank you, Mr. Chairman.

Mr. COELHO. I thank the panel very much. Now, Mr. Coulter.

STATEMENT OF JON D. COULTER, DAIRY FARMER, WABASSO, FL

Mr. COULTER. My name is Dennis Coulter. I am milking 900 cows in two separate operations. This past year we have produced about 12 million pounds of milk; we have 13 full-time employees; and we operate the dairy on leased property.

I would like first to address my personal thoughts about the dairy diversion program we just went through. Like Mr. Farrell, I did not qualify because of base herd—there's been a recent expansion within the herd prior to the program. I think that if nothing else came from the diversion program, potentially I—the best thing that ever happened to the dairy industry in this Nation did come from it and that is the national dairy advertising program. I think we have to advertise to sell our way out of this problem—this overproduction problem. We don't want overproduction. We want to be underproducing our product. The only way to do this is to increase consumption.

The dairy farmer has been, historically, the most efficient farmer in this country. He is going to continue to be so. Our cattle are going to produce more milk every year from now on—and with less people, less equipment, less everything—we're just going to produce more milk. We've got to sell that product. We've got the best food product on the market, if promoted. If we continue, or start another diversion program, I would be in favor of increasing the amount of money that was put toward national advertising. I've been in dairy production for 10 years. The first 9½ years of that 10-year period, I paid a monthly fee to a State advertising organization. This will raise the hair on a lot of people's necks, but I didn't see a whole lot of good out of that. I am a 'Gator. I am a University of Florida graduate. I have sat and watched Dickey Pall, the whole bunch on Sunday at noon, sell milk. Who is listening to those guys? A bunch of fat guys sitting there, smoking their cigars. And the dairy industry is paying their advertising bills. I do not agree with that.

I have three children. They are all in the public school system. They have yet to send them home with any information on why their mother should be giving them milk at night at the dinner table instead of iced tea. That is not right. So then, after we get up from the dinner table, we get up and sit down and watch TV and all of a sudden, here in the last 9 days, they see milk commercials—happy commercials, good commercials. I want to see more of them on prime TV, Saturday mornings. Let's let the mothers—they go out and buy the groceries every week—let's put advertising on during the soap operas, whenever the woman is sitting there watching TV or the children are watching it, let's advertise for them.

The diversion program did remove milk from the marketplace. But it removed a lot of milk from the Florida marketplace, and naturally, the Georgia dairyman—like us—efficient that he is, he provided that milk. We left an opening come into our market and the milk came in here to fill up that need. I don't think that was good for us. I heard some earlier testimony—I believe the Florida industry—the dairy industry—will sustain some damage because of our failing production within our State.

Another positive point in the diversion program was that it was paid for by the dairy industry. That is great. Any future programs should be handled the same way.

The negatives we have all heard here several times—too short duration. The dairy business is a long-term venture. Several generations long. I have been in business 17 years and I feel like I am just getting started, and I hope that is true.

This program, I feel, should be regionalized. We do not want to give up our market. We do not want to create a vacuum. If there is a vacuum, some farmer some where is going to fill it.

To me, the biggest negative of the program—we did not produce a national dairy herd. Half of the members I am told/indicate that we did, but I do not agree with them. I am not a statistician, but I feel like—during that 15-month period, 80 percent of the cows that were killed would have been killed within the same 15-month period anyway. There is no incentive to kill cows when the program is only 15 months long. To feed less feed, or lesser quality feed, you dry up the cows early—there are just many ways to reduce production without killing cows. There is no incentive to reduce the number of head that were being raised. I understand now, that there are more heifers per 100 milk cows on dairy farms in the country than there have ever been.

Gentlemen, the production—we now only have 2 billion pounds projected now, but without some kind of a program the production is going to be right back where it was before, if not higher. Feed prices are better than they have been in years and the [illegible] all the way the production would be discouraged will cause it to increase; that is better feed and more of it. The cattle that were taken out of production will be brought back in. We did not effectively reduce the dairy herd. That needs to be an integral part of any future diversion program, or whatever.

I do not agree with the theory that the Midwest has a problem within our area. We provide them with one of the best cheese markets in the country. We do not want to compete with them. We want them to produce that cheese. But we do not want them to produce our fluid milk.

As far as future legislation is concerned, we need to maintain our Federal milk marketing orders that were set up earlier. They have worked—as said earlier—for so many years for so much; we just need to let them alone and let them work as far as I can tell.

We need to continue and to expand the School Lunch Program. It, within the public school system, our Government spends and provides food at a low cost to the school systems. Now, on the other hand, they have vendors and have choices of nonnutritional food products to eat with their lunches—if we are going to provide them with a good, solid meal we should require the school systems to only provide them with a good food product to go with it. Coca-Cola machines should be banned from the school programs. The school system was designed for educational purposes. We need to educate our children as to what products to eat having their whole foods—Coca-Cola is not one of them; milk is.

We need to protect our quality products. We have the best quality product. Let us protect it. There needs to be stringent laws passed for strict labeling of all inferior products—artificial products. I think you could go as far as to require a restaurant or a pizza parlor that if they do not use true cheese, they should have that label on their menus. The nutrition is not there. It is a falsehood that the public does not realize. Unless those proper labels are there. We need to minimize imports of dairy products in any way we can—not only milk. As badly as we hate it, if we milk 100 cows in a year's time, we sell more beef than 100 cow-calf operation. We are in the beef business as well as the dairy business. We don't need to be importing beef into this country.

I appreciate this opportunity. There are a couple of problems, that do not directly relate to the milk program, but I want to take this opportunity to mention them because I know you gentlemen do handle it.

THE BRUCELLOSIS PROGRAM

After 40 years, we have a chance to eradicate brucellosis with the vaccination program that we now have here in Florida. If we had about one-tenth of the money that was thrown away on killing cows, and the vaccination program forced upon people who do not actively support it, we would have been out of this problem a long time ago. Killing cows has not worked and it will not work in the future. We need to promote the brucellosis vaccination—both calfhood and adult vaccination.

And, most farm—employees are farm labor. All they have to look forward to in life is Social Security when they are 65. Something needs to be done to make Social Security something to look forward to. Our men invest 14 percent of their income for a lifetime for $300 or $600 a month. And I certainly do not have the answer to this problem, but I just want it—hopefully it will be resolved in the next few years.

Thank you.

Mr. COELHO. With the climate the way it is, you can tell your employees not to worry. Social Security is going to be there a long time. They do not have to worry about that.

Mr. Hobbs, please.

STATEMENT OF JOHN E. HOBBS, HOBBS DAIRY, INC., BRANDON, FL

Mr. HOBBS. I am John Hobbs, and I have always operated three dairies in the same area. I am in the dairy farmers' cooperative.

My observation of the diversion program—particularly in Florida and in the Southeast—is that it was very appropriately timed for us as has been alluded to by everybody else and we need not go over that. The situation we were in, at the time the dairy diversion program was put into place—the only observation that might have been wrong with it was that it was hastily put together, I think. In January, after the start of it, we held meetings over here at Ft. Pierce where the officers explained the program. We had kept track of the development of the bill to see how—and we kept our farmers in the cooperative advised as best we could of all their options. Apparently it worked. But it did create problems here in Florida's market which have been alluded to.

If it comes up again—you know that sometimes, the second time around always is not as good as the first. I am sure that one of the problems with it and anybody paying the tax that is going to another farmer, it means that next time around he will not be particularly happy with that and so he probably will partake in money there. You may have other problems on the second time around, if you enact it as part of the bill.

In the discussion here today, it appears that—I think—the National Dairy Farm Organization is proposing this in their proposed legislation to you people in Congress that they figure a diversion program as part of the bill to eliminate the—when production gets in excess—I don't know what that excess is, whether it is 7 billion pounds or 10 billion—what that triggers. Whether that, at the second time around, solves the problems, I don't know. At this time you only reduced production .3 to .4 million—4.5 billion. So the next time around, the Secretary will probably not give everybody the quota they want. That is what happened with this bill in the Southeast.

In the last diversion program they cut out the East—have in the Midwest—the other part of the new dairy bill that is coming up that I would be strongly in favor of and it has been supported here is to maintain the order system. That is also, and it hasn't been alluded to too much, is imports. We sure do not want to open that can of worms. And now, with 2 percent or so that is being imported, it is probably even in excess. That would help us domestically if that was curtailed.

Certainly, in any legislation on the new milk bill, we do not want to do anything to open that door. But when you sum up the whole thing, the Government has got a problem and the public is against these high deficits, and people say they do not want to cut it $1 billion, or whatever figure—I do not—all you can do is lower the—leave some type of margin in there and not put everybody out of business. The cooperatives, I guess—you cannot keep everybody in business. But you have to have enough room in there where a guy can make it in the dairy business.

Agriculture—they talk about the grain prices and how—right now the dairy industry is benefiting by low grain prices. But when you go back over the whole program, and I know there are conservative viewpoints and liberal viewpoints, and whatever political spectrum you are on the side of. Some people say no program, no support, market oriented. But market oriented and agricultural is not as simple as it sounds. I am against that. I do not know your affiliations right there; but—and I am not any—we have got to put this thing together. For over 30 years this country has fed its people at a reasonable cost. Today I think it is only 15½ percent of the disposable income—no country in the world has ever—what we have done in the past has not been all wrong, but when you must just bring this economy down and this inflationary period that we are going through and everybody has to share in a proportion to where they are equal, do not wring it all out because that is going to put a burden back on the American public that will act as a reverse tact and start it up again.

And I would venture to say, that in 30 years, that all of the Government programs related to agriculture we would not have added more than a half or three-quarters percent to that percent of disposable income that goes to feeding the American people. That is a pretty low premium and good insurance.

Mr. Coelho. Thank you, Mr. Hobbs, we appreciate your comments. I think that a lot of times, we have a tendency to forget what has been brought into being in the last 30 years. As one of the witnesses said earlier, there is a feeling that the system that we have today will always be here. Well, that is not necessarily so. Some people, including this administration, would like to do away with that system. I am sure when the dairy farmers start to think about the whole thing and they start to understand that maybe what we have is not so bad, and so forth. And we appreciate your comments.

Mr. Whatley.

STATEMENT OF CHARLES W. WHATLEY, DAIRY FARMER, OPELIKA, AL

Mr. Whatley. I am Charles Whatley from Opelika, AL, which is right outside Auburn University—the home of the Auburn Tigers. My mother's brother and I are currently milking about 180 cows. We have a DHI rolling herd average of in excess of 15,000 pounds. I am the ninth generation of my family to farm since we came over here to the United States. I have been in two co-ops—most recently DI—and I am presently shipping into the Georgia Federal order. I am on no board and I represent no one other than myself.

I am here because I feel like I lost on the last time the dairy bill was redone and I did not go to Washington at that time to testify. I told my Congressman, Bill Nichols, I said when we do something this time I want to come down and tell those folks what I think about the dairy bill. So that is why I came down to Okeechobee. And I appreciate the weather too, it is mighty fine. I feel a little bit outnumbered. It looks like I am the only independent dairy farmer here and maybe the only one from outside the State of Florida. I gave you all a copy of my notes and I will just briefly hit the high points.

I feel like the Government has been causing us some problems. I feel like the minimum wage laws drive up labor costs and the cost of everything I buy.

OSHA and EPA promulgate regulations which increase the cost of equipment, chemicals, and stuff like that.

I feel like high deficits increase my interest rates.

I feel like the strong dollar restricts exports.

I feel like the embargoes weaken our credibility in the world market.

I feel like the failure of Government agencies to foreclose on farmers who have no chance of repaying their loans means that I am competing with people that cannot be put out of business.

But I feel like, of all these problems, probably the deficit is the only one that there is any real political possibility of impacting on.

But I do have some solutions. One thing that I think would help the deficit—several deficits. Of the several problems that I outlined, I do not think—I do not think that I will mention OSHA or EPA. The dairy program is what I have got right here. I feel like we can limit the size of Government payments to farmers. I feel like we can determine the amount of each crop needed for domestic use, domestic reserve, and exports; then issue an allotment through the ASCS to farmers. Have a base price with a surplus having no price protection. And I think that is essentially on a national base. I think that is one alternative we ought to consider and if it comes right down to it, I will be willing to take my lumps in a national base program.

I think provision for a regional base plan within the Federal milk order system could help us in the Southeast. I feel like hauling differentials should be increased to reflect actual cost. I feel like milk should be produced for a market. The production of vast quantities of surplus milk for sale to the Government does not constitute a market. I think we ought to cut the support price to the point that where the production of that milk will not be cost effective. I think, if possible, co-ops should be required to pay the farmers at least the Federal minimum order price.

When I was in DI, I never got the minimum Federal order price for any milk that I shipped. I want to try to get a program that does not cost a lot of tax money and preferably not any tax money. I do not want another tax on the milk and I do not want a class I diversion program. I think that if we are going to divert milk, let us divert the class II or class III milk—that is the stuff the Government is storing. And I do not mind paying—maybe—my share to divert that but I think it ought to come out of the class II and class III sales. Let us make the Federal milk order system work.

The way I read the Federal milk order system, it is designed to provide milk in those areas which do not have. I do not think the Federal milk order system stimulates production in the Southeast enough. And I disagree with Mr. Larson and Mr. Peachey on this idea of another diversion program.

[The prepared statement of Mr. Whatley appears at the conclusion of the hearing.]

Mr. COELHO. Thank you. Mr. Jeffords.

Mr. JEFFORDS. Thank you very much for your very excellent testimony. However, let me clear up a couple of things where there is a little misunderstanding. The 4 billion pounds that was referred to earlier is the excess production after Government purchases. The actual surplus above commercial sales would be somewhere between—around 8 or 9 billion pounds. I would like to make that clear.

There is a little irony in the diversion program. It was the southern Southeast in particular who fought the diversion program and it was the Wisconsin-Minnesota farmers who were most in favor of it; and the South signed up for it and the ones that pushed it did not. That is a kind of irony and just so that you know a little bit of the regional problem, there is a man who says their tax money went to the South and so it is a little ironic when we hear you testify because, obviously, so many signed up in the South that it was his money that ended up with really no surplus situation that supported your coffers. So we have all those little kind of problems, North and South and East and West, just to let you know.

I would also like to agree with Mr. Coulter on the advertising; and just ask you this question: The experts, and of course these experts help in the advertising industry and so that they have a little bit of self-interest involved. They say that, still relative to our competitors as Coca-Cola was referred to—that we are still only spending about half of what we should be in advertising in order to try and increase our share of the market. How would you feel about farmers that—you, yourself—about increasing our promotional efforts by a fat 100 percent.

Mr. **Coulter**. As long as advertising is visible to me—I have a young family. I feel like my family is a target for milk consumption. As I said before, I have not seen any advertising until this national program came into existence. As long as the money is spent in the right place, I will say that is unlimited. And I realize that we do not have the time element involved to know how effective it has actually been. But when it has proven that it is effective, if it is, why should we limit ourselves to any dollar amount to spend on advertising? I would like to get $25 a hundredweight for my milk 3 years from now.

There is no reason we cannot, if the public wants it. If the public desires it and the Government is not buying it and the Government will not need to buy it if the public buys it. The farmer is ready to produce that milk. We just have to sell it. So I am completely in favor of any dollar amount that is proven to be effective to spend on advertising.

The dollar tax we have all been paying—rather than to give it to farmers for not producing milk, I think it would have been more effective to spend on advertising long term—in fact, I know it would have been.

I failed to mention one thing—you know a lot of milk was poured down the drain. Those cows—all it took to get that production back on the day after the program was to stop up the milk tanks. That is not a very effective program, I do not think. We have to eliminate cows, we do not eliminate daily production. If not, we are going to remain in a surplus situation. If advertising will not work then we will need to eliminate cows.

Mr. **Jeffords**. Could I have a quick answer from all three of you, as to how do you think the vote is going to go on—the voting effort in your area. We have a vote coming up, as you know on whether or not to maintain the program. We just heard in Wisconsin that it is going to pass up there 60 to 70 percent and Congress will vote for it in the area of greatest concern. How will it go here?

Mr. **Whatley**. I think it will go 80 percent in the Georgia/Alabama area.

Mr. **Jeffords**. Mr. Coulter.

Mr. **Coulter**. You are asking how many farmers will favor a continuation of the program?

Mr. **Jeffords**. Right. With no promotion.

Mr. **Coulter**. 90 percent, I am sure of that.

Mr. **Jeffords**. Mr. Hobbs.

Mr. **Hobbs**. We will vote it in co-ops so it will carry, no doubt.

Mr. **Jeffords**. Big? In substantial number—percentage?

Mr. HOBBS. Yes; within the co-op, you are talking about?

Mr. JEFFORDS. Yes.

Mr. HOBBS. Yes, it will carry two-thirds or better.

Mr. JEFFORDS. Thank you, very much. One other question. The present law is going to reduce the price support to $11.60. Can you give me, again, very briefly, what is your feeling is on the impact of that if that price stays in effect—what affect will that have on you individually?

Mr. COELHO. Your answers will have to be brief.

Mr. WHATLEY. I do not think it will have very much impact on me.

Mr. COULTER. I feel the same. I do not believe it will be a big impact. Mainly we need to reduce the support price to a level that we need and leave it there for a long enough period of time for it to work. I think we react too quickly sometimes.

Mr. HOBBS. The only impact that it might have down in this area, it probably will weaken our position a little bit in bargaining for a premium bottle. In other words, if you are getting $2.50 and you lower it 50 cents, your processors can import milk and you can have a deficit. We would like to get a 50 cent lower price. It depends on the market situation at the time. If you are short of milk, you will not give it away, because the premium—they will have to make the concession.

Mr. COELHO. Mr. Lewis.

Mr. LEWIS. Mr. Chairman, I have no questions. Gentlemen I want to thank you for coming down here. Mr. Whatley, I admire your courage to mention the word, Auburn Tigers in Gater country.

Mr. COELHO. Thank you, Mr. Lewis. I also want to thank you for dropping over to testify before this subcommittee. I have met with the Alabama Farm Bureau Dairy Committee, and so forth, to discuss at some length their concerns. They point out to me that transportation differentials are the issues that they are concerned about and if we could do something about that they would be willing to live with a diversion program as a last ditch effort; if we could do something on differentials. Do you agree with that?

Mr. WHATLEY. Well, they and I do not drink out of the same dipper a whole lot; but on this particular issue I do agree with them.

Mr. COELHO. I generally do not drink out of the same cup as the American Farm Bureau, but these people are separate from the American Farm Bureau, as you know, which makes them dear to my heart.

Mr. JEFFORDS. I want to just point out that some of the people here commented about the fact that the length of the diversion program should have been longer. I want all of you to know that most of us on the dairy subcommittee agree with you and felt that way when we put the program in; but that the only way that we could get the program through was without it being vetoed was to bring it down to 15 months.

We originally wanted 3 years and we compromised to 2 years and then we had to compromise to 15 months to get the President to sign the bill. So we agree with you that we did not do the job that was necessary long-term wise. We did a short-term job. It would have been very nice if we could have had it for longer than 15 months; so I do not want you to think that we, up here, do not understand the life cycle of the cows and so forth and the——

Mr. COULTER. May I ask one question? As you proceed along in developing this program and you do consider the diversion program—I see one problem—if you give a farmer, to signup on the diversion program, and he requests 30 percent then he has to be cut back to 5 percent, he has no option but to continue with the program at 5 percent? That is the way the last one was written, am I correct?

Mr. JEFFORDS. That is correct.

Mr. COULTER. And in any new one, would that still be the case? You see my point? You are playing a poker game.

Mr. JEFFORDS. In a new one, you would have a different chip. The problem is that if we do not do that, then if everybody backs out, then you would have to say, well, wait a minute—so it would change and go back and forth and go back up again.

Mr. COULTER. You have answered my question, it will be in.

Mr. COELHO. I think the thing to stress again, is that the only way the diversion program will be in this bill is as a last ditch effort and that is in order to stay within the budget and we have to do something to do that.

Mr. WHATLEY. You mean not as a last ditch effort to be included in the bill, it is a last ditch effort to force the bill.

Mr. COELHO. That is right. So that you would go to everything else that needs to be done in order to try to get this program in balance. But if it does not go in balance as a result of everything else we have tried, we would end up with a diversion program to force it to go into balance. Thank you to the panel, very very much.

Now, Mr. Bassett.

STATEMENT OF WILMER W. (BILL) BASSETT III, PRESIDENT, BASSETT BROS., INC.

Mr. BASSETT. Thank you, Mr. Chairman. My name is Bill Bassett, a dairy farmer from Monticello, FL, and a member of Upper Florida Milk Producers Association, a dairy marketing cooperative association located in Jacksonville, FL. I thank you for the opportunity to visit with you.

I appear today in opposition of the Agriculture Adjustment Act of 1985, specifically title VII. The dairy farmers of Florida feel that the elimination of the Dairy Support Purchase Program would lead to wide fluctuations in market supplies in the form of surpluses and deficits and unstable price situations for producers.

Mr. Chairman and members of the subcommittee, as you know, the Agricultural Adjustment Act of 1985 would continue the current Dairy Support Purchase Program through September 30, 1987, and would provide the authority for making two support price adjustments during this period. Beginning October 1, 1987, the act would discontinue the Dairy Support Purchase Program and switch to a direct payment program for dairy. This direct payment program would use the relationship between target prices and market prices in determining the rate of payment. This would be similar to the support programs that have been used for the major crops since the early 1970's.

We, in Florida, agree that the Secretary of Agriculture needs the authority for making price support adjustments when Government purchases exceed a certain level. History has shown that a reduction in the dairy price support level does act to curb national production and thereby reduce governmental spending for excess dairy products. What concerns us is, that as of September 30, 1985, this act repeals the Agricultural Act of 1949, which provides authority for the current Dairy Price Support Purchase Program.

The objective of the price support purchase program has been to reflect changes in the cost of production, assure a level of farm income adequate to maintain productive capacity sufficient to meet future needs, and most importantly, meet the current needs of consumers at reasonable prices.

It is vital that a purchase program continue to be the method used to support the price of milk. This system has worked well and has provided stability in market prices of milk and dairy products that could not be attained by any other method. CCC purchases have prevented fire sale prices and maintained markets for producers. During most years of program operation, there have been adequate supplies available in CCC storage to moderate increases in milk prices during the short season. Due to the seasonality of production and short storage life of raw milk, inherent problems exist in consistent production and marketing. This balancing of supply and demand produced by the price support purchase program during the different seasons of the year has been very important to the dairy industry.

The proposed target price-deficiency payment program would not work well for dairy products. A target price-deficiency payment does not give a true signal to producers. Such a program guarantees a minimum price to producers whether or not market conditions justify such a price.

In addition, the Agricultural Adjustment Act of 1985 is calling for a study of Federal milk marketing orders. We do not need another study of the order program. In 1981, Congress directed the U.S. Department of Agriculture to study all dairy programs including the Federal milk order program. That study was a thorough analysis of the impact of orders on producers, processors, distributors, and consumers, and did make recommendations for changes, both regulatory and legislative, which would improve the operations of the orders. There have been no significant changes in conditions, nor any major technical changes since the completion of that study which would warrant the time and expense involved in another study. Our efforts should not be directed to the implementation of those recommendations into the 1985 farm bill.

In conclusion, Mr. Chairman, we, in Florida, feel that a strong and fair agriculture policy must be developed this year to assure a continued variety of nutritious food for the American consumer at reasonable prices. We recommend that the Dairy Price Support Program be maintained as the essential policy element providing needed price assurance and stability, but only to the degree that in the long run, prices are allowed to adjust the level of milk production to the demand for milk and dairy products.

It would be a disaster for dairy farmers and consumers alike, if any program along the lines of that proposed by the administration, were allowed to replace some reasonable dairy program. As a consequence, I find it necessary to ask you to oppose the administration's proposal, the Agricultural Act of 1985, specifically title VII.

Thank you.

Mr. COELHO. Thank you, Mr. Bassett. I am not sure you will have too much of a problem. We strongly oppose it, in fact most people do. I particularly appreciate your bringing that out. At all the hearings that we have been at, most people have assumed that that would be the case and I as long as I am chairman of this subcommittee that will be the case; but I appreciate your pointing it out because many people just do not understand what the administration's proposal would do. It would devastate the industry and I appreciate your bringing it out.

Mr. Williams, please.

STATEMENT OF CHARLES R. WILLIAMS, DAIRY FARMER, AVON PARK, FL

Mr. WILLIAMS. Thank you. I am Charles Williams, a dairy farmer from Avon Park, FL. I serve on the board of directors of Independent Dairy Farmers Association, and appear here to present the dairy program which has been approved by our cooperative.

We believe a dairy program that would serve the interest of Florida dairy farmers and those of the Southeast should include the following elements:

First, fostering the development and growth of cooperative marketing by farmers as provided for by the Capper-Volstead Act of 1922. Marketing cooperatives enable the farmers to market their products in an orderly and effective manner.

Second, the development and continuation of a strong national dairy advertising program. This program is presently provided for by the National Dairy Promotion Board. This program is funded through a checkoff of 15 cents per hundredweight on all milk produced in the United States, and is completely paid for by the dairy farmers. This board enables dairy farmers to promote consumption of dairy products and to expand the market for them.

Third, the continuation of the School Lunch Program, the nutritional programs for the elderly, and the WIC Program, and the use of dairy products in these programs.

Fourth, seeking a minimum level of price assurance to dairy farmers through a price support program.

Fifth, seeking to maintain orderly marketing conditions through the Federal milk marketing order program.

Mr. Chairman, each of these five items is of sufficient importance to require a full statement of support from us at such times as they are being considered. Because general farm legislation is being considered this year, my statement will be directed almost entirely toward our proposal for a dairy price support program which, along with the Federal milk marketing orders, blends with the others to create a general agricultural policy.

The basic objective of the Dairy Price Support Program continues to be valid. The very nature of the commodity—milk—makes instability in its production and marketing inherent. Because milk is a bulky perishable product whose production is dependent upon the biological process of a cow, the ability of price to properly coordinate production, assemble, processing, and marketing with consumption is greatly impaired.

It is vital that a purchase program continues to be the method used to support the price of milk. This system has worked well and has provided stability in the market prices of milk and dairy products that could not be attained by any other method. It has prevented fire sale prices and maintained markets for producers during the flush production months. During most years of its operation, it has provided valuable dairy products for the use of Government in many nutrition programs and needy assistance programs. We urge its continuation.

We do, however, recommend changes in the method of determining the price at which milk will be supported. We believe this use of parity and the 1910–14 base period is now antiquated and has developed some undesirable aspects for this purpose. We do support the use of an updated index for establishing the support level of milk.

The dairy pricing index that we advocate relates the costs that dairy farmers face today with those in the 3-year period of 1976 to 1978. This was a period in which there was a fairly balanced supply and demand of milk production.

Eighty percent of the dairy pricing index is determined by the cash expenses of dairy farmers. The weights given to the specific items are based on a USDA cost of production study. There are 16 such individual items in the formula which includes, feed, farm services and cash rent, interest, farm wage rates, fuels and energy, and self-propelled machinery. Of these, the feed factor carries the weight of 33 percent in the formula, but in terms of cash expenses, the feed factor represents 41.25 percent. By contrast, feed represents less than 10 percent in the index that we now use. In Florida, where most of our feed is purchased, this represents a significant difference in our actual costs.

Ten percent of the dairy pricing index represents the consumer price index [CPI]. This ties milk prices to what is happening in the general economy.

In addition, a factor representing prices received for meat animals is included in the formula and weighted at 10 percent to represent the dairy farmers alternative of selling dairy animals for meat rather than keeping them for milk.

The index generated by these 18 factors is then adjusted by a cost of production adjuster. This adjuster reflects the changes in inputs needed to produce 100 pounds of milk. The adjuster is tied to output per cow, and recognizes herd efficiency improvement, reflects the changes in input needs to produce 100 pounds of milk since the base period.

The adjuster index is then multiplied times the base price of $8.33 to determine the support price for the coming marketing year. The base price of $8.33 is the average of milk prices during the months in the base period of 1976 to 1978.

If the formula does not adequately reflect these changes we recommend a supply-demand adjuster. This is a schedule of price support increases or decreases related to the expected net purchases by the Commodity Credit Corporation during the coming marketing year. It is triggered if these anticipated purchases are expected to go over 5 billion pounds or below 3 billion pounds, as follows:

SUPPLY-DEMAND ADJUSTER

[Billions of pounds]

CCC purchases	Mandatory price adjustment (percent)	Discretionary price adjustment (percent)
Less than 1	+7.8	Unlimited
1 to 1.99	+5.2	Up to +7.8
2 to 2.99	+2.6	Up to +5.2
3 to 3.99	0	Up to +2.6
4 to 4.99	0	Down to −2.6
5 to 5.99	−2.6	Down to −5.2
6 to 6.99	−5.2	Down to −7.8
7 and over	−7.8	0.

The final provision of our program is an incentive program very similar to the recent dairy diversion program which would be placed in operation when significant adjustment in supply is necessary.

A review of the recent milk diversion program has led us to consider it a success, even though it ran for only 15 months. During its operation, milk production dropped 4 billion pounds. This is the first decrease in production in several years.

Along with the diversion program, I am pleased to report that consumption also increased about 4 billion pounds last year. As a result, purchases of dairy products by the Commodity Credit Corporation were down over 8 billion pounds in 1984 from the preceding year. For the 1983–84 marketing year, net Government expenditures were reduced over $1 billion—down almost 40 percent.

With this history, brief as it is, our proposal is very similar to the one which was concluded only a few days ago. It has, however, developed some guidelines as to when it might be implemented. If Government purchases are estimated to be less than 5 billion pounds, there will be no diversion program and no assessments. If between 5 billion and 7 billion pounds, the Secretary would have the discretion of implementing a diversion program coupled with an assessment. If over 7 billion pounds, the Secretary shall institute a diversion program coupled with an assessment that is mandatory.

Assessments which would be levied would be on all milk and are intended to cover all program costs on purchases in excess of 5 billion pounds. While we recognize the unpopularity of the assessment procedure, it has been included in recognition of the budget restraints which are likely to be imposed on the dairy program, as well as on all other commodity type programs.

The milk diversion proposal, while very similar to the recent one, is updated to meet the present situation. The base period would be the 12 months ending June 30 immediately prior to the program announcement. For those who participated in the last program, bases would be adjusted to reflect this fact.

The program would continue the $10 per hundredweight payment for reductions. The program, which I stress, is voluntary, would permit contracts for reductions of 5 to 30 percent. The Secretary, as in the recent program, could adjust these contracts if too much reduction is likely to occur.

We would also recommend the support price of $11.60, and amended by the new pricing index, be given 1 year to clear the market before starting a diversion program.

Just as important to us, in Florida and the Southeast, as the price support program is the Federal milk marketing order program. This program facilitates the orderly marketing of fluid milk between producers and milk processors by establishing a structure that assures equitable treatment for the parties involved. This is accomplished by providing that all milk entering the market be classified according to use; establishing minimum prices for the milk used in each classification; providing a means of equitably distributing the proceeds from the sale of all milk in the market among the producers supplying that market; and verifying the accuracy of reports of milk use and the accuracy of test and weights of all milk marketed.

The Federal milk marketing order program is a viable and effective instrument which ensures a continuing supply of fluid milk at reasonable prices. Since Florida is almost completely a fluid milk market, the Federal milk marketing order program is vital to us. It is also worth noting that the cost of the Federal milk marketing order program is entirely industry supported and at no financial cost to the taxpayer.

Mr. Chairman, we believe this program to be sound. It is based on past successes in the use of product purchase program, in the diversion program, and in the Federal milk marketing order program. We urge your consideration.

Mr. COELHO. Thank you very much. We appreciate your comments, Mr. Williams.

Again, as with Mr. Bassett, I appreciate your bringing out some of the things that we take for granted. The administration's bill will not do some of the things, as you have pointed out, that need to be done.

Mr. Hilliard, you may proceed.

STATEMENT OF JOE MARLIN HILLIARD, PRESIDENT, FLORIDA CATTLEMEN'S ASSOCIATION

Mr. HILLIARD. My name is Joe Marlin Hilliard, president of the Florida Cattlemen's Association.

I have a written statement that has been sent to Congressman Lewis' office and I will not read it if you are running out of time.

This is the first dairy hearing I have attended, but I have been to several sugar hearings; and I do not believe we are quite as unorganized at our hearings but we certainly have our problems.

The Florida Cattlemen's Association has 1,000 members in the State of Florida and many of those members are dairy farmers as yourselves. They have a problem that the cattlemen do not want to address in their legislation; but what we are concerned with is dairy cattle being placed on the market in competition with our beef cattle. The end results are different for a dairy cow and a beef cow.

We would just like for you all to look at the imports. If there is an orderly liquidation of these cattle I do not think it will affect the beef market at all. But if there is a rush flood of these cattle, it is going to really affect the beef market. And with that, we certainly would like you all to take a long, hard look at slowing down imports during this period of time.

[The prepared statement of Mr. Hilliard appears at the conclusion of the hearing.]

Mr. Coelho. Thank you, Mr. Hilliard. As I have said to you previously, I happen to think your suggestion, that we look at a way to slow down imports of beef during this period of adjustment for dairy, and so forth, would have a beneficial impact, not only on you, but on the dairy industry that could be positive. I appreciate your making that recommendation. We will be pursuing it, hopefully we can be helpful in some way on that; and I appreciate your suggestion very much.

Mr. Jeffords.

Mr. Jeffords. A quick question, Mr. Williams, on your plan. Would you freeze the price at $11.60 even though it would appear that the production was going to be above your trigger for a mandatory diversion program?

Mr. Williams. If you go by the price index, it would enter at just along this—it would adjust your support price along with production and consumption. Your index on your present feed conditions would, I think, probably knock about 20 or 25 cents off of the $11.60—but I would hold at $11.60.

Mr. Jeffords. Thank you.

I just want to make a comment on imports. I think it is important, not just only in the cattle area, but to let everyone know that we are going to be going for—perhaps starting fairly soon—on a new round of negotiations with multilateral partners in trade in what are called GATT negotiations. There is every reason for dairy farmers, in particular, to be deeply concerned and to be ready to express themselves very articulately on this issue and not lose sight of it. I have good reason to believe that one of the nice bargaining chips that we have sitting there on our side—whether we want it or not—is dairy. And if——

Mr. Coelho. You mean bargaining from a negative point of view?

Mr. Jeffords [continuing]. From a negative point of view. In other words, I am afraid there is an enthusiasm to give away some of the dairy protection in order to get trades for increase grain and exports. We have to watch that very carefully. This again, raises the importance of getting more deeply involved in promotion and advertising and product research on our side to make sure that we can—hopefully—devise ways to prevent that—if it does occur—from having a dangerous impact on our market.

Thank you.

Mr. Coelho. I might just say for the record, at this point, and for the dairymen in this room, that the subcommittee will be holding hearings directly on some legislation dealing with sugar imports. There is some legislation that gives this particular subcommittee jurisdiction on this issue and we will be holding hearings on it and hopefully trying to move something along that the other committees will not object to and that we would address it.

I happen to agree with Mr. Jeffords in regard to negotiations that may come up. As you know, in 1983 and 1984, the administration felt that we could let New Zealand have [illegible] [illegible] for an 18-month period over all imports of butter and milk products because New Zealand is such a trusted ally. Then I do not think that we should let any country have control over any of our imports for any particular period of time. But we did that. So much with that. I think we have got to be concerned about protecting. New Zealand may have rights in regards to [illegible] or [illegible] of that or whatever. I think it is something that we all need to be concerned about, but the subcommittee has jurisdiction and any [illegible] that [illegible] and as we will be watching it very carefully.

Mr. Lewis, any questions?

Mr. Lewis. Mr. Chairman, one comment. We did support this subcommittee to be able to solve all of the problems of imports. We have many jurisdictions, but I would want to point out that [illegible] one jurisdiction is in the area when we get into trade. We will do what we can but unfortunately our subcommittee is not able to do all we would like in that area.

Mr. [illegible]. That is what I addressed earlier. The issue of trade is generally handled by the Ways and Means Committee of the House and is not our jurisdiction. However, there is a way that we can get into it and as long as the Chairman of the Ways and Means Committee does not object to it too strenuously, I will be working on that to see if we cannot work something out with that. We will be continually working in that area and see what we can do.

I appreciate the panel's presentation very much. Mr. [illegible], you may proceed.

STATEMENT OF R. KENT [illegible], PRESIDENT, [illegible] FARMS, INC.

Mr. [illegible]. I am Kent [illegible], president of [illegible] Farms. [illegible] Farms is a family-owned farm with dairy operations located about 10 miles south of [illegible]. The [illegible] family has been producing milk to [illegible] for nearly 50 years. 1,300 cows are milked three times a day in 3 barns. The cattle are in year-round confinement. We also grow crops that feed the rest of the herd in a [illegible]. [illegible] of [illegible], of which [illegible] produced and [illegible] the [illegible] of the [illegible] in [illegible] and [illegible] [illegible]. We provide employment for about 100 people. Our milk is sold to [illegible] Dairy Farmers Organization, a farmer cooperative marketing association.

We are pleased to be here today to be able to share some of our thoughts and concerns about the next farm bill and federal dairy policy.

First, we believe that the new legislation should attempt to address the long-term situation rather than short-term [illegible] the current problem. Today, after a 15-month program to reduce production, we still have a national surplus. Current market factors include low feed prices, an abundant supply of replacement heifers, and decent milk prices. This all points to increasing that surplus in the coming months. Beyond the short range, forecasters tell us that the demand for dairy products is likely to remain relatively stable for the next 5 to 10 years, while production per cow will raise significantly, so the national dairy herd will require 10 to 15 percent fewer cows. The number of cows per farm is expected to increase to the point that by 1995 we will need only two-thirds of the present dairy farms.

If fewer cows and fewer dairy farms are required to fulfill demand for dairy products in the future, legislation should not include gimmicks such as national bases, quotas, two-tier pricing, and taxes on production to be allocated to other producers in an attempt to keep everyone in business, needed or not. Clearly, what will no longer be tolerated by taxpayers is dairy legislation that uses tax dollars to create and fund a market for dairy products that have no commercial home.

New legislation does need to retain the price support mechanism as the cornerstone. It should not be dropped on October 1, 1987, as the administration suggests. It should not be replaced by direct payments tied to target prices. Granted, flexibility must be built into establishing support prices that will limit accumulation of dairy product inventories. But to do away with the dairy support purchase program that has worked so well for so many years, just because in recent years law and outdated parity formula called for a higher price than market economics indicated, seems a classic example of throwing the baby out with the bathwater.

Through the years the dairy support purchase program has done a good job of stabilizing price and supply. With flexible support prices set at levels that limit accumulation of inventory, price discovery for dairy products will be a function of the marketplace—where it belongs—rather than of a parity formula or a political determination.

We do need insurance in the new farm bill that farmer cooperative marketing associations will continue to be able to function and grow under the provisions of the Capper-Volstead Act of 1922. Strong farmer marketing cooperatives, directed by farmers, offer brighter hope than the Federal Government for solving dairymen's problems.

A Federal milk marketing order program must be retained in the new dairy bill to assure dairy farmers and their cooperatives equity in the marketplace.

Last, we strongly favor the national promotion effort. It is the one chance that dairy farmers have of changing the prediction of needing fewer cows in the future. Milk seems to have a positive sales image now with calcium research going for it. The 15 cent a hundredweight checkoff is generating enough funds now so that we can go head-to-head with national beverage and food sellers for a bigger share of the Nation's stomach. Provision for retaining a national dairy promotion board should be included in the new legislation.

Thank you, again, for this opportunity.

Mr. COELHO. Thank you, Mr. Bowen. Now, Mr. Bispham.

STATEMENT OF CYRUS G. BISPHAM, DAIRY FARMER, SARASOTA, FL

Mr. BISPHAM. My name is Cy Bispham. I am a dairy farmer from Sarasota. I do not have nine generations, but we have three generations so far, and I have two sons and three granddaughters coming along. I do not have a grandson yet; but I have a granddaughter that is big enough to open a gate for me. We hope to be able to stay in the business until I get a grandson to carry on.

I am on the National Milk Producers' Federation Board and I was on that stabilization committee that helped draft the proposed bill that is now being presented to Congress by National Milk. We had about five meetings all over the Nation and I think that most of the Nation was represented. You had anywhere from 20 to 40 members throughout the Nation; including several from California and the Northeast, and the Midwest and Washington State, and Texas, and everywhere.

When you all spoke to us in San Antonio, and also in Detroit, you said come back with some unanimity. Well, we did not have unanimity when we started. We must have had about—like you said—20 people and at least 25 programs. But we came up with almost a unanimous vote the last meeting. We finally recommended to the board—we did not have a unanimous vote but we had a 20-to-1 vote—sorry to say it was part of our southeastern board that was the one that voted against us and nevertheless we have not got them straightened out yet but we are working on them.

I believe that the four issues that we brought up from this committee are very, very important. The last ditch effort—which you referred to—the diversion program is certainly not what all of us wanted by any means. Like I told the members of the stabilization committee, I do not like to eat possum but I did one time because I could not catch a rabbit. So, as we progressed through all of those hearings, we finally came up with something that all of us think we can live with.

One thing I would like to bring out is that what we recommend as the diversion program would be a volunteer program and it would not take effect until it was a last-ditch effort when we were so far overproduced. If you just let prices alone do it, it is not just dairy farmers that go broke, it will be feed companies and suppliers and tractors and the banks will also go broke. So, if there is anyway that we can stop it before it gets that far, I think would be a great effort and especially—where it is industry supported—and I know we heard several people here today say that they did not want to be taxed—well to me, we can get a little of it back in the marketplace if we can get our production in level with the demand. But if the Government is going to buy it up and store it up, it has got to be sold again. Once the Government buys it, that does not get rid of it. It has got to be sold again, or given away—and it cost somebody a lot of money to give it away. I think you all know that it costs $17 a hundredweight to buy it, and process it, and then turn around and give it away—and when we were getting about $11 or $12 for it. So I think that some type of diversion program—as a stop-gap effort—would be very, very important.

Mr. COELHO. Thank you very, very much. We appreciate those comments.

Mr. Jeffords.

Mr. JEFFORDS. I do not think I have any questions of this panel.

I do enjoy working with you. Mr. Bowen, I appreciate your testimony very much. In fact, I would like to say at this time, the very excellent testimony that we have had this morning, Mr. Chairman, has been helpful.

I want to, again, thank Mr. Lewis and his staff for bringing together such an awesome and excellent group of people who have appeared before us and give us their views that are extremely helpful to us. I really mean that.

Mr. COELHO. Thank you. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman. Mr. Bowen, you mentioned in your testimony that we should not retain the price support mechanism as the cornerstone. In your judgment, how low can we go, in terms of a price support?

Mr. BOWEN. It would be hard to pick out a number. It has to be market-directed. It cannot be at a level set by a parity formula that allows milk to be produced at a profit and plants built to just handle that kind of production—if it can be—maybe it would not even have to be tied to a parity formula. It might be tied to a certain percent of over the needs of the nutritional programs of USDA and the price support drop as the percentage above actual need increases. There are a lot of things it could be tied to besides parity. It is hard to stay up with parity. It is a wonderful concept; but the dairy industry has become so efficient it makes it difficult.

There is a new thing kicking around that I am sure you all know about—bovine growth formula—that if it works out, you can inject cows and overnight you have a 15- or 20-percent increase in milk production. That would mess up your parity formula.

Mr. LEWIS. Do you have a patent on that?

Mr. BOWEN. I wish I did. It sure beats milking cows.

Mr. LEWIS. One other question, Mr. Bowen. What is the Southeast dairy industry's outlook, given today's economic conditions?

Mr. BOWEN. I hate to speak for the whole region; but certainly in the short term——

Mr. LEWIS. I ask you that because you have the most cows.

Mr. BOWEN. That is not true. My herd is not even the biggest in the room.

It looks very good, short run. Prices of feed are too cheap. Our people that are providing these feeds are in real trouble. It is cheaper than it should be. And milk prices are relatively good now. It is very good now. It seems like it is going to be a short-term situation. By next fall, I would expect that a lot of the production that was taken out in Southeast by the diversion program to be replaced.

Mr. LEWIS. Thank you.

Mr. Chairman, I again want to take this opportunity to thank you for coming down to Okeechobee and holding this hearing in the heartland of the dairy industry in Florida. True to form, as I had mentioned to you earlier, the people hear and speak what they believe. They do not hold back. There was disagreement among some members of the panels—which is healthy. I am proud to be representing this group and to be representing this area.

Mr. Chairman, you exemplify the bipartisan effort of the entire Agriculture Committee and Dairy Subcommittee. As you can see, the chairman is sitting here today between two Republicans. Tony Coelho does an outstanding job. And, we are very fortunate to have him as chairman of the subcommittee. He does know the dairy business and so does Jim Jeffords, from Vermont. Thank you, again, for coming down.

Mr. COELHO. Thank you, Mr. Lewis. I appreciate those very kind remarks very much. Obviously, I think that those of you in this room who have participated in this hearing and who have heard these comments would agree with me that Mr. Lewis does an outstanding job for you.

I would like to thank the panel for their testimony and their comments. I would also like to make, as part of my statement, a comment that I came down here anticipating that this would be a hostile hearing in regards to some of the programs and what is needed nationwide. I find that you people have been very interested in what is in the national interest in order to get a dairy program moving and your fitting into that. I appreciate that attitude very much.

I think that is what we need to do—we need to have a national program and there needs to be compromises on the parts of the dairy farmers from all of the different regions so that we do get the unity that is needed. We then can pass a dairy bill that is not only in your best interests, but also that does not hurt other agriculture interests and is in the best interests of the American public. This is something that we have to do. We just cannot sit back and throw stones at other people from other dairy parts of the country. I think it is important to try to work together. I am very impressed with this hearing that you have put together and you can be sure that we, in other regions of the country, are willing to make sure that anything that is done reflects your attitude today of your willingness to cooperate.

I want to thank, again, Mr. Lewis' staff for their efforts and their cooperation; and also for their attitudes in making this a successful hearing. I would also like to announce that everyone who has attended this hearing is welcome to a barbeque that will begin at 5 p.m. here at the Civic Center so please come back.

I will not be able to be here as I have to catch a plane and go on to another event out of the State tonight. However, everyone should come back. Mr. Jeffords will be here with Mr. Lewis and hopefully all of you will attend.

Is there anyone in the room who was not able to present some testimony who would like to? They are welcome to present their testimony to the subcommittee. All you need to do is to present it in writing—either handwritten or by typewriter—within 10 days and we will make it a part of this hearing record. Anyone who testified who feels they would like to add additional testimony to their testimony may do it under the same conditions. If you will just give it to Mr. Lewis or his office within 10 days, we will make it an official part of this record.

Again, I want to thank everyone for their hospitality.

The hearing is adjourned.

Mr. **Jeffords**. Mr. Chairman, I would just like to give you a warning. There are two Republicans here and one Democrat. You are flying out of town. I just want to let you know. I have done an analysis and understand a little bit about politics and realize that the Democrats that call themselves Democrats here are really not Democrats. They are really Republicans. So, at that barbecue, I intend to lobby very hard. I just want to let you know that as you fly out of town so that you can rest easy.

Mr. **Coelho**. We have to keep the hearing record open because we need to keep the record straight. I would not be very comfortable, Mr. Jeffords, if I heard the testimony of all these individuals here, about their concern about the administration's proposed program, I think that the Democrats that are here will stay Democrats and have nothing to worry about.

[Whereupon, at 12:30 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

Testimony of
Louis E. "Red" Larson

Mr. Chairman:

I am Louis E. "Red" Larson, a dairy farmer from Okeechobee, Florida, and a member of the Board of Directors of Independent Dairy Farmer's Association, a dairy marketing cooperative headquartered in Fort Lauderdale. I am also a member of the Executive Committee of National Milk Producers Federation and am the immediate past president of the Federation.

I would like to thank the House Dairy Sub-Committee for holding this hearing in Okeechobee and for the opportunity to express myself on some facts about the dairy industry in the South and particularly about South Florida, and why the Southeast, and especially Florida, is unique in relation to the rest of the country in milk production.

We differ from the rest of the country in:

1) Climate (Very hot summers and hurricanes)
2) Soil (Available feeds - Mainly dependent on purchased feeds)
3) Insects
4) Seasonality of sales
5) Consistent growing population
6) Large intensive dairies with hired labor
7) Environmental concerns (Water and water management)
8) Profitable to produce fluid milk only
9) Deficit milk market
10) Geography (Long distance from alternative supply of milk)

In order to establish the uniqueness of Florida in milk production in relation to the rest of the country, it is necessary to give a brief history of the formation of the dairy industry in Florida.

Climate in Florida has played a big role in the production of milk. When the early Spanish settlers came to our coast to establish a permanent settlement, they brought with them cattle that became their source of meat and milk. These native cattle or PINEY WOODS CATTLE, as they became known, had adapted themselves to our climate, our soil, our poor range conditions and the insect problems. The most prevalent of all insects was the cattle fever tick.

The Piney Woods Cattle were common on the farms and ranches in the South up until the early 1900's when other breeds were brought in to be crossed with them to try to make them more productive both in meat and milk. However, the new imported blood lines of breeding stock soon perished when exposed to the elements, but lost mainly to the cattle fever tick. It was believed it would not be possible to produce milk commercially in South Florida at all until the complete eradication of the fever tick, which took place in the 1920's and 1930's.

Through research from our land-grant colleges, it was learned that we had many deficiencies in our soils. They suggested we add certain minerals and trace elements to our fertilizers to make our pastures more productive. Additionally, the bulk of our feed is imported and we too must add certain minerals to this feed.

With the gradual development of a cattle industry in the South, small dairies began to prosper around the towns and cities. These dairies generally produced and bottled their milk and delivered it to the local population. As these operations grew, some would only produce the Grade A raw milk and sell it to their fellow dairymen who had a bottling operation. These became known as producer-handlers.

As the population grew and the dairy industry prospered in our nation, large propitiatory handlers would buy out some of these small producer-handlers and continue to purchase milk from their dairy farms. Some of the small producer-handlers formed cooperatives to be better able to compete with the larger dairy companies that had entered their market.

But from these earliest times, there was never any attempt to produce milk for manufacturing use to make butter, powder or cheese. Even today, there is little milk production used for by-products except in times when we have an occasional surplus - usually in the Spring months.

Growing population and seasonality of sales due to tourism are major factors in Florida. The South is normally a deficit milk production area. We have to import fluid milk from other milk producing areas of the country to adequately supply the total fluid needs of our changing population.

The dairy farmers in the South have historically produced for the fluid needs of its market due to the high cost of production and marketing practices of the past. The early producer-handlers would only allow the farmers to bring in the amount of milk that was needed for bottling purposes.

With the development of the State Milk Commission, the practice of individual handler pools for milk were maintained and the individual producer milk bases became established. With the passing of the State Milk Commission, which attempted to establish retail prices and then became politically very unpopular, we moved into another era with the formation of Producer Bargaining Cooperatives.

These cooperatives petitioned for Federal Milk Marketing Orders. The Marketing Orders now oversee most of the milk marketed in the South, making sure that all handlers pay the same price for Grade A raw milk, that the butterfat is properly read and paid for, and that the milk used in the higher use classifications is evenly accounted for in the producer settlement pool.

We now have market-wide pools so that producers do not gain or lose with the movement of sales from one handler to another. The Federal Order also attempts to price the milk so that there will be an adequate supply for the consumer.

Milk bases were formed by the members of the producer cooperatives. These milk bases were established by using the members' production of the past and carrying it forward as the market grew. In the beginning these milk bases were very restrictive and dairymen would try to match their production to their Class I milk sales quota. The Class II production generally returned our farmers less than the cost of production, so these milk bases helped to keep our production in line with the market needs.

Today most dairymen operate with a volunteer cooperative base which has been modified greatly. This type of base causes the over-producer to cut back in times of surplus as he must carry the major cost of disposing of the surplus milk; and during times of shortage, the under-producer must increase his production or carry the major cost of importing milk, often from as far away as the Midwest. This situation helps keep milk production for fluid market needs pretty much in balance except in times of very high feed cost or very low milk prices.

The dairy farms in Florida and the South today are basically very specialized operations. Most of them are large when compared to the average herd size in the nation. They are growing more of their own feed but are still very much dependent on purchased ingredients from the Midwest. The PIK program in 1983, followed by the drought the same year, greatly increased the price of feed to the point of actually breaking some of the marginal producers. We must also compete for labor with other industries in our local areas to maintain an adequate staff of employees to produce milk of high quality standards.

Large dairy farms are very much concerned with environmental regulations. Environmental concerns include meeting the requirements of the Dept. of Natural Resources, Environmental Protection Agency, Florida's Dept. of Environmental Regulation and the various water management boards. Dairymen must spend large sums of money to properly dispose of dairy animal waste material so that dairy farming can live in harmony with its urban neighbors.

Most of these large operations are commercial family farms or family corporate farms. The farms are very capital intensive and most are now located out and away from the major population centers.

The geography of Florida and the South puts it a long distance from a major alternative supply of milk. When we do import milk during our seasonal shortage, the cost of the milk shipped in from the Midwest plus the transportation cost exceeds the price of locally produced milk. Therefore, a strong dairy industry contributes to lower prices to the consumer.

I feel that this is what makes milk production unique here in the South and especially in Florida. Under normal circumstances, we can produce the fluid milk needs for our market and make a profit; but we cannot produce milk for by-products profitably. This situation assures our local population of a fresh daily supply of locally produced milk and allows us to use our local resources to provide a good product both for the benefit of the consumer and the thriving agricultural industry of our section of the country.

Thank you.

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Suggestions for the Dairy Section of the 1985 Farm Bill

By

Charles Whatley

Section I

Government Actions Increasing Production Costs

1. Minimum wage laws drive up labor costs and the cost of everything we buy.

2. OSHA and EPA promulgate regulations which increase the cost of equipment, chemical, and etc.

3. Deficits increase interest rates.

4. The strong dollar restricts exports.

5. Embargoes weaken our creditably in the world market.

6. Failure of FHA,SBA, PCA, and FLB to forclose on farmers who have no chance of repaying their loans means that I am competing with people that can't be put out of business.

Section II

Possible Solutions to be Included in the 1985 Farm Bill

I would like this panel to know that since I consider government to be a contributor to the increasing cost of agricultural production and surpluses, and since I believe that politics will prevent government from alleviating any of these negative factors except possibly the deficit; I have a few suggestions for the 1985 Farm Bill which could have a positive impact and be politically feasible.

1. Limit the size of government payments to farmers.
2. Determine the amount of each crop needed for domestic use, domestic reserve, and export, then issue an allotment through ASCS to the farmers. Have a base price with any surplus having no price protection.
3. A provision fora regional base plan within the Federal Order system could help us in the Southeast.
4. Hauling differentials should reflect cost.
5. Milk should be produced for a market. The production of vast quantities of surplus milk for sale to the government does not constitute a market.
6. If possible require co-ops to pay farmers at least the minimum federal order price for their milk.
7. Try to get a program that doesn't require a lot of tax dollars.

(The farm business narrative is held in the committee files.)

Statement by Joe Marlin Hilliard, president, Florida Cattlemen's Association, before the House Agriculture Subcommittee on Livestock, Dairy, and Poultry, Okeechobee, April 19, 1985

* *

As cattle producers, we want the nation's dairy problem resolved. Our association was supportive of the National Cattlemen's Association's position of opposition to extension of the dairy diversion program. This program expired March 31st.

We understand Dairy Farmers, Inc., here in Florida, is proposing a plan containing several points designed to accomplish orderly marketing resulting in the eventual development of a national dairy herd of a size that will supply the market needs without being a threat to the beef industry.

We would state here that there would be no objection for their proposal to be presented at other levels so that a fair and objective assessment can be made. But in making the assessment, consideration must also be given to slowing down meat imports from Australia, Canada and New Zealand -- and the Latin countries. The beef industry would be severely impacted should heavy numbers of dairy cattle enter the marketing channels in addition to the flow of beef imports.

It is recognized there is an urgent need to develop new dairy legislation which will have the long-term goals of (1) preserving an adequate supply of milk without larger-scale fluctuations and consequent ups and downs in the consumer price, and (2) pricing milk so that farmers can cover their production costs and make a small profit without expanding government stocks.

However, beef producers must have the assurance that their product would be protected from adverse impact under any proposed program.

A main point of contention with the previous program was the distortion of economic signals to beef producers which was most disruptive to the pricing at the marketplace.

GENERAL FARM BILL OF 1985
(Limit Imports of Milk Protein Products)

WEDNESDAY, JUNE 5, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:20 p.m. in room 1300, Longworth House Office Building, Hon. Tony Coelho (chairman of the subcommittee) presiding.

Present: Representatives Volkmer, Penny, Rose, Stenholm, Jones of Tennessee, Bedell, English, Jeffords, Gunderson, Lewis, and Smith.

Staff present: Cristobal P. Aldrete, special counsel; John E. Hogan, minority counsel; Peggy L. Pecore, clerk; Bernard Brenner, Kim Schnoor, Courtney Pastrick, Jeffrey Weiss, Carol Ann Dubard, and Stephen R. Kerr.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. COELHO. The subcommittee will come to order.

The Subcommittee on Livestock, Dairy, and Poultry is meeting today to receive testimony from a wide range of witnesses in our effort to determine just what the impact of imported casein is on our dairy farmers and its use in competition with American dairy products.

There have been indications from the dairy industry, manufacturers of dairy products, and congressional Representatives, that the effect of the importation of milk protein products is placing a burden on the dairy industry leading to decreased economic activity and displacement of U.S.-produced nonfat dry milk.

In 1981 the Department of Agriculture estimated that approximately $300 million was added to the cost of the Dairy Price Support Program by imports of casein and the subsequent displacement of U.S.-produced nonfat dry milk. We will attempt to determine today just what the increase in casein imports have meant in terms of actual dollars and cents impact on the industry.

It is also important to address those concerns voiced by our trading partners in those industries who have no substitute for casein in the manufacture of their product. Specifically, we will focus on H.R. 1629 introduced by my colleague, Congressman Charlie Rose, which is a bill to limit the quantity of casein and other milk products which are imported into the United States while providing a licensing system to protect interested parties based upon product use.

We hope that this hearing will provide us with the necessary information upon which to make the decisions that will serve the needs of all concerned and provide the balance necessary to affect an equitable solution to the subject matter under discussion.

Mr. Jeffords, do you have any comments?

Mr. **JEFFORDS**. I have really no further statement, Mr. Chairman, other than to say that I agree with your statement and, as one of the original cosponsors of Mr. Rose's bill, I look forward to us being able to do something helpful and productive in this area. That is all I have to say.

Mr. **COELHO**. Thank you.

Mr. Gunderson will be here momentarily, and at this particular point I would like to place in the record his statement and a copy of H.R. 1629.

[The opening statement of Mr. Gunderson, H.R. 1629, and the report from U.S. Department of Agriculture follow:]

STEVE GUNDERSON
3D DISTRICT, WISCONSIN

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COMMITTEE

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Congress of the United States
House of Representatives
Washington, DC 20515

OPENING STATEMENT

CONGRESSMAN STEVE GUNDERSON

LIVESTOCK, DAIRY & POULTRY SUBCOMMITTEE

JUNE 5, 1985

MR. CHAIRMAN:

First of all, I would like to thank the Chairman for holding what I believe is the first House or Senate hearing dedicated solely to the issue of casein imports since 1979 and for the opportunity to enter an opening statement into the record.

You know, Mr. Chairman, there's really no other way to summarize the problem which is the subject matter of today's hearing than to simply say imported casein replaces domestically-produced non-fat dry milk and that costs our farmers, our processors, and our taxpayers money--lots of money.

In October, 1981, I offered an amendment to the 1981 Farm Bill that would have done precisely what the separate legislation of the gentleman from North Carolina (Mr. Rose) and of the gentleman from Wisconsin (Mr. Roth) would do--limit annual casein imports to a percentage of average imports over a recent five-year period. In fact, I have been a cosponsor of the Roth casein legislation in both the 98th and 99th Congresses.

Mr. Chairman, no one on this panel or, to my knowledge, in the Congress seeks to totally eliminate casein imports into the United States. We recognize that approximately one quarter of all casein imports are used for industrial and medical purposes, and that non-fat dry milk is a viable substitute for only about two-thirds of the casein used in food and animal feeds.

At the same time, that means that just slightly more than one-half of all casein imports directly substitute for domestically-produced non-fat dry milk. Accordingly, assuming annual casein imports of approximately 200 million pounds, we can see that somewhere around 300 million pounds of non-fat dry milk goes into government surplus every year because of casein imports. And that costs American taxpayers $250 million annually.

Thus, there are quantifiable reasons to limit casein imports to half of the average of such imports during a recent five-year period. That's why I continue to support the legislation offered by Mr. Roth and Mr. Rose. The time has come to put a well-deserved lid on casein imports and the unnecessary expense they add to the dairy price support program.

I should also note one other paradox, Mr. Chairman, before closing and that is the classification of casein in the Tariff Schedules of the United States (TSUS) as a "chemical". Now, I could understand that classification if almost all of the casein imported into the United States where used for industrial or medical purposes as in the early '60s when the "chemical" designation took place.

However, with three-quarters of all casein imports used for food and animal feed purposes, it seems that the time has also come to reclassify casein under Part 4 of the TSUS as a "dairy product".

Again, I thank the Chairman for this opportunity to include an opening statement in the record and commend him for holding this hearing. Thank you, Mr. Chairman.

99TH CONGRESS
1ST SESSION

H. R. 1629

To amend the Agricultural Act of 1949.

IN THE HOUSE OF REPRESENTATIVES

MARCH 20, 1985

Mr. ROSE (for himself, Mr. BRYANT, Mr. JEFFORDS, Mr. JONES of North Carolina, Mr. KASTENMEIER, Mr. KINDNESS, Mr. MCHUGH, Mr. MARTINEZ, Mr. OBERSTAR, Mr. OBEY, Mr. PENNY, Mr. STANGELAND, Mr. TOWNS, Mr. TRAXLER, Mr. WILSON, Mr. WORTLEY, and Mr. HUCKABY) introduced the following bill; which was referred jointly to the Committees on Agriculture and Ways and Means

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A BILL

To amend the Agricultural Act of 1949.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Agricultural Act of 1949 (7 U.S.C. 1421 note) is amended by adding at the end thereof the following new section:

"QUANTITATIVE RESTRICTIONS ON MILK PROTEIN PRODUCTS

"SEC. 424. (a) For purposes of this section, the term 'milk protein products' includes—

"(1) casein,

"(2) caseinates,

"(3) lactalbumin,

"(4) whey protein concentrates, and

"(5) mixtures containing not less than 5 per centum of any product referred to in paragraphs (1) through (4).

"(b) To ensure that quantities of milk protein products imported into the United States will not render ineffective, or materially interfere with, price-support operations undertaken under this Act, the President shall by proclamation limit the quantity of milk protein products that may be entered in any calendar year (or portion of a calendar year in the case of the calendar year in which this section is enacted) beginning on the day after the effective date of this section, to a quantity equal to 50 per centum of the average annual quantity of milk protein products that was entered during the period beginning January 1, 1979, and ending December 1, 1983 (or, in the case of such portion of a calendar year, a proportionately lesser quantity). A proclamation issued under this subsection shall be considered a proclamation which is issued by the President under section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) and which meets the requirements of that section.

"(c) In implementing a quantitative restriction proclaimed under subsection (b), the Secretary of Agriculture shall establish an import licensing system for foreign milk protein products under which—

"(1) first preference shall be given to those importers or users who establish that their importation or utilization of such products is for purposes for which no substitutes are available;

"(2) second preference shall be given to those importers or users who establish that their importation or utilization of such products is for purposes for which domestically produced skim milk or skim milk solids cannot be substituted; and

"(3) third preference shall be given to importers or users not qualifying for allocation under paragraphs (1) or (2).".

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

September 12 1985

Honorable E (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This is in response to your request for the Department of Agriculture's views on H.R. 1629, a bill "To amend the Agricultural Act of 1949."

The Department of Agriculture opposes enactment of this legislation.

H.R. 1629 would require the President to restrict imports of "milk protein products" (defined as casein, caseinates, lactalbumin, whey protein concentrates and mixtures containing at least 5 percent of any of these products) to 50 percent of the average annual imports of these products during the years 1979 through 1983, and states that the proclamation establishing the import restrictions would be considered a proclamation issued under Section 22 of the Agricultural Adjustment Act of 1933, as amended (Section 22) and meeting the requirements of that section.

H.R. 1629 also provides for the establishment of an import licensing system to administer the import restrictions under which preference would be given to importers or users of the milk protein products who establish either that no substitutes are available or that domestically produced skim milk or skim milk solids cannot be used as a substitute.

The import restrictions imposed by H.R. 1629 could be challenged by our trading partners as being inconsistent with the General Agreement on Tariffs and Trade (GATT). The GATT generally prohibits the use of quantitative restrictions on imports. The United States was granted a waiver from this general prohibition for quotas imposed under Section 22 for the purpose of protecting the domestic price support programs carried out by the Department. However, that waiver would not necessarily cover the quotas proposed by H.R. 1629 since these quotas would be imposed without the determinations and public investigation required by Section 22. Other countries would likely seek trade compensation from the United States if these import restrictions are imposed.

The U.S. International Trade Commission conducted a Section 22 investigation in 1981-82 concerning casein, mixtures in chief value of casein, and lactalbumin. It found that imports of these articles were not materially interfering with the dairy price support programs of the Department of Agriculture.

Since material interference with the domestic dairy program has not been established, the more likely source of our dairy surplus problem is in not allowing clear price signals to be sent to farmers from the marketplace. Price supports set out of line with market realities tend to overstimulate milk production and create the kind of situation now faced by the dairy industry. Restricting the flow of lower cost dairy products to manufacturers and consumers will simply raise food costs and fails to address the more basic issue of government programs that distort market forces.

If the problem is subsidized imports of casein, there are countervailing duty statutes under which the industry can get relief. A showing that subsidies are being employed by the exporter and the resulting imports are injuring the affected U.S. industry will trigger the imposition of duties to offset the subsidy.

The Office of Management and Budget advises that it has no objection to this report from the standpoint of the President's program.

Sincerely,

John R Block

John R. Block
Secretary

Mr. COELHO. Mr. Volkmer, do you want to say anything?

Mr. Jones, do you want to say anything?

Mr. Rose, we welcome you to the subcommittee. You may proceed.

OPENING STATEMENT OF HON. CHARLES ROSE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ROSE. Thank you, Mr. Chairman, members of the subcommittee. I appreciate the opportunity to testify before you today regarding H.R. 1629, legislation which I introduced to limit imports of milk protein products.

At the present time there are 29 members who have joined me in cosponsoring this legislation. H.R. 1629 limits imports of milk protein products to 50 percent of the level of imports over the past 5 years. Additionally, this legislation contains a licensing system based on product use, designed to provide sufficient supplies to meet the needs in specialty and industrial use products.

Mr. Chairman, milk protein products are defined in H.R. 1629 as including: Casein which is the major milk protein product imported; caseinates, lactalbumin, whey protein concentrates, and mixtures containing at least 5 percent of any of the products described.

The licensing system gives first preference to importers or users establishing that their importation or utilization of these milk protein products is for purposes for which no substitutes are available, second preference to those importers or users who establish that their importation or utilization of milk protein products is for purposes for which domestically produced skim milk or skim milk solids cannot be substituted; and third preference to those importers or users who failed to qualify under either the first or second tier of the licensing scheme.

The need for this legislation is apparent from the continued and agressive expansion of imports of milk protein products and the burden these imports are placing on all sectors of the dairy industry, as well as the Domestic Dairy Price Support Program.

The 1983 Dairy Adjustment Act that we passed has been very successful in both decreasing Government purchases of dairy products and in decreasing nationwide milk production. Government dairy product purchases in 1984 were significantly below the 1983 level, and milk production was also below 1983 milk production levels.

However, the cost to dairy farmers associated with the decrease in milk production was high. Farm income is down as a result of the current price support reduction of $1 per hundredweight in the 1983 act, also because of the 50 cent per hundredweight assessed which funded the self-help payments made to farmers in the Milk Diversion Program.

Off the farm, less milk was processed in the more than 3,000 dairy plants across the country. Some plants were closed, and others operated far below capacity. Overall, the 1984 changes meant less economic activity in the dairy industry and agricultural communities dependent on the dairy industry.

Increased imports of milk protein products have only compounded the effect of the changes contained in the 1983 Dairy Adjustment Act. In 1984, at the very time we were asking this Nation's dairy farmers to make significant sacrifices, imports of casein, the major milk protein product imported, rose to 192 million pounds, compared with 159 million pounds in 1983, and what this did was displace nonfat dry milk produced by U.S. farmers. Displaced it rather drastically.

Some background information on casein may be useful at this point to identify how this product has acted to displace, for example, non-fat dry milk produced by U.S. farmers.

Casein is a dry milk protein product derived from milk. Approximately 3 pounds of casein is produced from 100 pounds of fluid skim milk. There are approximately 9 pounds of nonfat dry milk in 100 pounds of skim milk. Therefore, nine pounds of nonfat dry milk have the same protein content as 3 pounds of casein.

Casein replaced domestic nonfat dry milk—powdered milk—in numerous food products. Casein is also used to produce nondairy or imitation dairy products, like imitation cheese or nondairy creamer. While casein is imported as a chemical, its use has changed significantly from chemical and industrial usage to food and feed production uses. Recent figures show casein use as 15 percent industrial, 16 percent feed, and 69 percent food use.

Casein is typically low in price, and cannot be produced economically domestically, and, therefore, there is little interest in casein production in this country. Some foreign nations provide an additional disincentive to the development of casein production domestically because of the artificially low prices on imported casein made possible by production subsidies. At one time there was a substantial casein industry in the United States. However, unlimited quantities of subsidized imports effectively undermined the U.S. casein industry.

Some would claim that U.S. producers have failed to enter this market and are, therefore, entitled to no protection because of this failure to participate in casein production. However, the fact remains that nonfat dry milk can provide the very protein that casein provides, and that the use of surplus nonfat dry milk instead of an imported product whose original use has changed, would reach a number of desirable objectives inherent in our domestic dairy program.

Interestingly enough, the Agency charged with the administration of the domestic dairy program, the United States Department of Agriculture, has concluded that some $300 million was added to the cost of the operation of the dairy Price Support Program by imports of casein in 1980 by displacement of U.S. produced nonfat dry milk.

In 1984, casein imports added some $470 million in costs to the operation of the dairy program. In fact, in the last few months of 1984 casein imports exceeded Government purchases of nonfat dry milk.

The irony of this is apparent. At the same time that we ask our dairy farmers to make greater and greater sacrifices, and at the same time that we insist the dairy program costs must be pared, we permit a situation to exist which only adds to the costs incurred by all. Clearly, it is time to change this situation.

I am hopeful that we will address this situation as quckly as possible so that we may get a true handle on the costs associated with the dairy program, as well as ensure that our program operates to the fullest benefit of both taxpayers and farmers.

Mr. Chairman, thank you for letting me come here before you today and make this statement.

I had a little note that a dairy farmer gave me. He must have been milking his cows early one morning when he thought of this one, but it was a little rhyme, and he asked me to share it with you.

And he says, "The cheese I ate was a fake. It was filled with caseinate. The cake that I ate was a fake. The chef was a fiend who used caseine." He said, "Don't be tricked when you dine. Support H.R. 1629."

I hope he does better at milking cows than he does at writing poetry, but the point is there, Mr. Chairman, and I appreciate you letting us be here today.

Thank you, sir.

Mr. Coelho. Are you going to publish that?

Mr. Rose. It is up to you. You can strike it from the record, if you want to.

Mr. Coelho. Mr. Rose, we appreciate very much your introducing this bill and having it directed to our subcommittee. You have always been considered a legislative genius, and how you ever did that, I still am trying to figure out. But your reputation is well deserved.

You thanked us for having you here today. You can take your seat up here anytime you want. We thank you for your wanting to be here.

I also want to say that being from California, we did not think casein was something that we needed to be worried about. And as we look at the charts that my staff has prepared on the impact with nonfat dried milk, I find that my California dairymen need to be very concerned about casein imports. So it has changed my attitude.

Mr. Jeffords.

Mr. Volkmer.

Mr. Jones.

Thank you. Do you want to join us. We would love to have you here.

Mr. Rose. Yes; thank you.

Mr. Coelho. Next, our colleague Toby Roth. Toby, go right ahead.

Mr. Roth. Thank you Mr. Chairman. I think for the purposes of introducing his testimony, I would like to yield to the gentleman from New York, Mr. Horton, for purposes of introducing——

Mr. Coelho. I would love to have my good friend Mr. Horton—go ahead, Frank.

STATEMENT OF HON. FRANK HORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Horton. Thank you, Mr. Chairman.

I have a statement, a couple of pages, with some enclosures. If you don't mind, I would like to ask that it be included in the record.

Mr. **Coelho**. Without objection, so ordered.

[The prepared statement of Mr. Horton appears at the conclusion of the hearing.]

Mr. **Horton**. And I will just make a very short statement.

No. one, I am happy to sponsor both the Roth bill, H.R. 431, and H.R. 1629 introduced by our colleague, Mr. Rose, which he has already testified on, and I certainly concur with his testimony 100 percent.

I also would like to introduce testimony and ask unanimous consent to include in the record a statement from the chairman of the New York State Senate Committee on Agriculture. The chairman of that committee is Steve Riford from my district. I have a copy of his statement which I would like to include in its entirety.

Mr. **Coelho**. Without objection.

[The prepared statement of Mr. Riford appears at the conclusion of the hearing.]

Mr. **Horton**. Other than that, Mr. Chairman, to make it very short, I would just like to say that casein is having a devastating effect in the State of New York on our milk industry and whatever we can do to reduce the imports to help our milk industry is going to be very helpful.

So I urge this subcommittee to do everything in its power to help our dairy people.

Mr. **Coelho**. Thank you, Mr. Horton. Having your support, Frank, means a lot. You have a tremendous amount of influence and we appreciate your taking the time out of your busy schedule to be here.

Mr. **Horton**. Thank you very much, Tony.

Mr. **Coelho**. Toby, you may proceed. We appreciate your introduction of your bill, of course. Unfortunately, that is not before our subcommittee, but we appreciate your taking the time to be here today.

STATEMENT OF HON. TOBY ROTH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. **Roth**. Thank you very much, Mr. Chairman. I want to thank you and the members of this subcommittee for holding this very important hearing. This is the third session I have been working on this legislation and, believe me, it is very gratifying to come before this committee to say I endorse your work.

You had mentioned before you were somewhat surprised that Mr. Rose is considered a genius in legislative matters. I am not really surprised at that because this particular subcommittee, as we all know in Congress, has some of the best and brightest members, and it is a real pleasure to appear before you.

Mr. Chairman, I have long been interested in resolving this problem. At the beginning of the year I introduced H.R. 431 the Milk Protein Fair Trade Act. This is the third time I have introduced this bill in three successive sessions.

I am pleased that the House Livestock, Dairy, and Poultry Subcommittee has initiated hearings on this matter. I compliment your efforts which will draw praise, I think, from many Americans, especially those engaged in dairy and the American taxpayer.

I urge the subcommittee to report favorably this legislation so that we can incorporate this into the 1985 farm bill.

Under section 22 of the Agriculture Adjustment Act of 1935, the President is empowered to place a restriction on the importation of any commodity judged to interfere with domestic agricultural policy.

In 1981, the Department of Agriculture studied the effects of casein imports on the Dairy Price Support Program and concluded that milk protein product imports do interfere directly with the success of domestic dairy policy by displacing nonfat dry milk produced in the United States.

The long debated issue of casein is a classic example of the situation under which section 22 was authored and is designed to address. Recent pressures to reduce Federal expenditures in agriculture underline the importance of dealing with the casein issue promptly.

In 1981 the Department of Agriculture estimated that some $300 million was added to the cost of the operation of the Dairy Price Support Program. Mr. Rose, our colleague, Mr. Rose's testimony, I will underscore this again.

What we are experiencing is a situation in which the American taxpayer is paying twice for the same commodity. A 1983 USDA report concludes that all the major casein producing and exporting countries have various subsidy schemes for casein.

We are making it profitable for other nations to subsidize casein production by allowing them to export so generously to the United States. Simultaneously, we are buying our own non-fat dry milk which has been displaced by casein. This is a waste of taxpayer dollars I think we can no longer afford to tolerate.

This legislation responds to the widespread demand that casein imports be curtailed. It has bipartisan support from all around the country, dairy and nondairy districts alike. It has been endorsed by the National Farmers Organization, the National Milk Producers Federation, the dairymen, and many, many others.

This bill, which has the same practical effect as the one introduced by Mr. Rose, would impose a 50-percent quota using as a base period average yearly imports of casein to the United States during the period between January 1, 1979 to December 31, 1983.

Under section 22 of the Agricultural Adjustment Act, the President would have authority to review and change the quota as conditions dictated. Today the evidence is clear, that casein imports interfere directly with the Dairy Price Support Program.

In December 1981, almost 4 years ago, I appeared before the International Trade Commission to warn that the failure to provide relief from casein imports would significantly contribute to our dairy inventories. It should be no surprise that in 1985 we have bulging warehouses and casein imports continue to skyrocket.

Milk protein products have shifted in use from industrial application to food and feed products. The Foreign Agricultural Service at the USDA stated in a letter to me that food and food use accounts for three-fourths of the total casein utilization.

The U.S. International Trade Commission reported in 1982 that the largest and fastest growing market for casein was imitation cheese, and if we had the real product why should we use imitation products. Clearly imports of milk protein products are adding to an already difficult situation for the domestic dairy industry. This is an issue of fair treatment for America's dairy farmer.

We have at our command the legislation to ensure that our Dairy Price Support Program can operate in the best interest of the taxpayer, the farmer, and the consumer. Mr. Chairman, and members of the committee, as I said, I have worked on this for a long time, but, quite frankly, I don't care who gets the credit. I just want to get the job done.

And if we can get this into the 1985 farm bill, so be it, and again, I think everyone would applaud your efforts and I thank you for allowing me to appear before this subcommittee.

[The prepared Statement of Mr. Roth appears at the conclusion of the hearing.]

Mr. Coelho. I agree with you, Toby. I think that everybody recognizes the work that you have been doing on it for a long time, so if we can just get it done, that is all that counts.

Mr. Jeffords.

Mr. Jeffords. Thank you. I want to compliment the gentleman, too. I worked with him very hard on these dairy matters, and I don't think that there is anyone in the Congress that has taken more of an interest in the dairy farmers than as the gentleman from Wisconsin, and we deeply appreciate your efforts, and look forward to working with you on it on a continuing basis.

Mr. Roth. Thank you very much.

Mr. Coelho. Mr. Volkmer.

Mr. Volkmer. No questions.

Mr. Coelho. Mr. Smith.

Mr. Jones.

Thank you very much, Toby.

Mr. Roth. Thank you.

Mr. Coelho. Mr. Dave Martin. Dave, do you want to go ahead?

STATEMENT OF HON. DAVID O'B. MARTIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Martin. Thank you very much, Mr. Chairman. I would like to ask that my prepared statement be submitted for the record.

Mr. Coelho. Without objection, it will be.

Mr. Martin. I want to salute the members of the subcommittee and particularly the gentlemen from California and Vermont for the many hard, long hours you have put in on this most difficult subject and the dairy question in general.

I represent a very big dairy producing area in the State of New York. During my 4½ years in the House, there has been nothing more vexing to me than trying to help this Congress grapple with the problem and come to a fair and equitable resolution of the whole dairy problem.

This situation concerning casein is something I have been concerned about since I came here, and I have been very frustrated in our efforts to get some type of meaningful legislation. I think at the present time the sentiment is stronger than it has been before.

As we have purchased additional pounds of milk, and I quote Mr. Rose, "the skyrocketing of the imports of casein which supplants the uses of our own dairy products, is dangerous, to say the very least."

We are at the present time importing in the form of casein the equivalent of two-thirds of our surplus nonfat dairy products, which doesn't seem to make an awful lot of sense. I am sure that we all would agree that it hardly makes sense when we are spending so much money to purchase and store nonfat dry milk that we are importing an unconscionable amount of casein.

Again, as Mr. Roth pointed out, the subsidies that relate to this product, subsidized by their government, makes the problem even more exasperating for us. About 30 percent of New York State's milk supply is used for cheese manufacture. I want to point out that is not for sale through the Federal Government. It is for sale in the open market.

As a matter of fact, we are finding in our present situation, notwithstanding large purchases, we are finding actual spot shortages of milk. And while this might exasperate the situation somewhat, I think that it is going to help the overall dairy picture if this two-thirds of the surplus could be taken care of.

It is interesting to note that this casein is imported duty free while the milk protein concentrate is dutiable at 0.2 cents per pound, which isn't much help at all.

Again, I want to salute this subcommittee for your work, and hopefully—and I think this is "the year." If we are going to be able to attack the problem for any number of reasons, I think this is the propitious moment and hopefully we can do this as part of the 1985 farm bill, I thank you, gentlemen.

[The prepared statement of Mr. Martin appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Dave. We appreciate your support and effort. I can well remember your driving up to the field hearings in Vermont and making that extra special effort to be there and to represent your dairy farmers. So we all well know your interests and the future of the dairy industry, so we appreciate your support.

Mr. MARTIN. I know you have worked very hard on this and we look forward to seeing you in New York. I know we are working out something for another hearing in New York State.

Mr. COELHO. Well, we greatly appreciate it. We decided that maybe the situation in New York was a little different than Vermont, and I wanted to see how people in Vermont would treat me. I wasn't too happy with—how the people in New York treated me. I wasn't too happy how the people in Vermont treated me. So we will see what happens.

Mr. MARTIN. We would be happy to make you feel very much at home.

Mr. COELHO. Mr. Jeffords.

Mr. **Jeffords**. I won't make any comment on what you said, but we will get even.

I would just like to say that I enjoyed working with you. I know your farmers are extremely well and ably served by your terms in Congress. And I specifically remember your great help to your farmers and all of us in postponing that second 50-cent assessment way back, where you ably took care of the opposition on the floor with no more than a stare, which was brilliantly done, and I appreciate working with you.

Mr. **Martin**. I thank the gentleman.

Mr. **Coelho**. Any other member of the committee?

Thank you very much.

If it is all right, why don't we go ahead and go vote and then we will come right back and we will start with the witnesses then.

[Recess taken.]

Mr. **Coelho**. Come back to order.

Without objection, I would like to submit the testimony of our colleague, Bob Kastenmeier, who can't be with us today, but would like to have his views included in the record. So, without objection, they will be included.

[The prepared statement of Mr. Kastenmeier appears at the conclusion of the hearing.]

Mr. **Coelho**. We would now like to hear from the Department of Agriculture, and we are pleased to have before us my good friend Dick Smith, who is Administrator, Foreign Agricultural Service, who is accompanied by Ken Clayton, Economic Research Service and John Riesz with the Foreign Agricultural Service.

Dick you may go ahead.

STATEMENT OF RICHARD A. SMITH, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY KEN CLAYTON, DIRECTOR, NATIONAL ECONOMIC ESTIMATES DIVISION, ECONOMIC RESEARCH SERVICE; AND JOHN RIESZ, DIRECTOR, DAIRY, LIVESTOCK AND POULTRY DIVISION, FOREIGN AGRICULTURAL SERVICE

Mr. **Smith**. Thank you, Mr. Chairman. I appreciate the opportunity to be able to participate in this discussion of the bill, H.R. 1629, which would limit the amount of casein and other milk protein products that could be imported into the United States. Specifically, the proposal would require the President to restrict imports of casein, caseinates, lactalbumin with protein concentrates and mixtures containing less than 5 percent of any of these products to 50 percent of the average annual imports of these products that occurred during the period 1979 to 1983.

In addition, it states that the Presidential proclamation establishing the import restrictions would be considered to be a proclamation issued in accordance with section 22 of the Agricultural Adjustment Act of 1933, as amended, and one which meets the requirements of that section.

The bill also indicates that the import restriction scheme would be administered by an import licensing system giving preference to importers or users of restricted products who can't get domestic substitutes.

Because of the price differentials with nonfat dry milk, there has been no casein production reported in the United States since 1968, and imports have met the growing domestic demand for the product since that time. Imports of casein and mixtures, which had been rising, declined in 1983 and then rose to 87,000 metric tons in 1984, an increase of 20 percent.

However, this represents only 5.3 percent of U.S. solids, not fat, in total U.S. production which compares with about 4.4 percent in 1980.

New Zealand is our largest supplier of casein and mixtures. They ship us about 43,000 tons per year, which is a little over one-half of our import requirements. This was an increase of about 40 percent from 1983.

The European Community is our next largest supplier and last year their shipments totaled 33,000 tons and that was a gain of about 15 percent.

The Department of Agriculture strongly opposes the passage of H.R. 1629. There have been two studies done on the casein import issue within the recent past. One by the Economic Research Service in the Department of Agriculture in June 1981; and another was done by the International Trade Commission in January 1982.

Both of the studies concluded that the importation of casein does not meet the criteria for the imposition of section 22 quotas. The criteria are as follows: one, that the imports would render or tend to render ineffective the USDA Price Support Program for milk; two, materially interfere with the program; or, three, reduce substantially the amount of products processed in the United States from domestic milk.

We strongly believe that none of these criteria have been met or are being met.

If the problem is subsidization of casein imports by suppliers, there are countervailing duty statutes under which the industry can get relief. A showing that subsidies are being employed by the exporter and the resulting imports are injuring the affected U.S. industry will trigger the imposition of duties to offset the subsidy.

Because New Zealand, which is the major supplier of casein to the United States, is not a member of the GATT Subsidies Code, it would be necessary to show only that a subsidy exists without proving injury in order to invoke countervailing duty provisions against the imports from New Zealand.

I might add though, however, we have been unable to demonstrate that an export subsidy in the case of New Zealand exists. There are some indirect production subsidies to the dairy farmers.

In the case of the European Community, our No. 2 supplier, there is a manufacturing subsidy on casein which amounts to about 93 cents per pound. To countervail against the EC on casein would require proof of injury to the U.S. domestic industry as well as proof of a subsidy.

So we believe there are remedies available to the U.S. dairy producers that feel threatened by casein imports. Section 22 of the Agriculture Adjustment Act and the countervailing duty provisions of the Tariff Act. To pass legislation that would bypass these existing legal avenues would set a precedent which would place the United States in violation of its international agreements.

That concludes my statement, Mr. Chairman. I would be glad to answer any questions.

Mr. **Coelho**. Thank you, Dick.

Mr. Jeffords.

Mr. **Jeffords**. Thank you, Mr. Chairman.

I just have some questions on the subsidies from the European countries, which you say is 93 cents a pound. Do I figure it, the casein is equal and milk equivalent about 10 percent of our surplus; is that——

Mr. **Smith**. I beg your pardon. I didn't hear the first part.

Mr. **Jeffords**. Is the amount of casein which is imported and the milk equivalent, is that equal to about 10 percent of our surplus? Or what percent of our surplus?

Mr. **Smith**. Is that correct, John?

Mr. **Riesz**. That is about right, yes. If you take an equivalent——

Mr. **Jeffords**. What kind of an impact do you believe you have to show in order to have a legal impact such as you could talk in terms of duties?

Mr. **Smith**. The countervailing duty provisions are administered by the Commerce Department and ITC. You would have to go through a petition. I am in no position to really prejudge what kind of result you would get out of there.

The only points I would make is that under section 22 we have had these two studies, which really address that issue, what is the impact, and in both cases the studies and the decisions that came out of those studies was that there was not sufficient impact to justify section 22 action.

Mr. **Jeffords**. Has there not been significant increase in imports since the last study?

Mr. **Smith**. There has been an increase and a decrease. If you compare it over the last 3 or 4 years, there has been, I think, about a 10-percent increase.

Mr. **Jeffords**. And as of this last year versus the year the study was done, what was the increase?

Mr. **Smith**. Well, I am saying from the time the study——

Mr. **Jeffords**. I know that. There was a dip in the middle there.

Mr. **Smith**. So it is about 10 percent.

Mr. **Jeffords**. Is that an average or is that——

Mr. **Smith**. About an average, that is correct.

Mr. **Jeffords**. What is the difference between the peak we had last year and the time that the study was done.

Mr. **Smith**. I will ask Mr. Riesz. He has these numbers.

Mr. **Riesz**. It is about a 30-percent increase since the time the study was done.

Mr. **Jeffords**. I take it the administration is not considering then another petition to the ITC?

Mr. **Smith**. We have looked at this. We did the study. I think evidence since the study even strengthens our belief that the contention that there is a 1-for-1 substitution of casein for nonfat dry milk cannot be established. In fact, we really believe if you started limiting the amount of casein that you would just drive people to other substitutes; that you cannot make a case that casein substitues 1 for 1 for nonfat dry milk.

Mr. Jeffords. What does your study show the substitution would be?

Mr. Smith. Why don't I ask my colleague from ERS—he is the one that did the study—to comment on that.

Mr. Clayton. The substitution question is a little bit of a difficult one, I think, to look at. I think what you have to look at are a couple of things. One is some of the functional attributes of casein and alternative ingredients, and how they might or might not be used in various products.

The other is a basic question of economics, what ends up being the cheapest input to the product formulation. I think the evidence is reasonably clear over the last 3 or 4 years that we, in fact, have seen inroads made by things like whey protein concentrate and other ingredients where, in fact, they were lower in cost even than casein.

So it seems fairly clear that substitution is already occurring.

Mr. Jeffords. But you can't give me any guidelines as to the kind of substitution you would get? For instance, if you stopped importing casein or prevented the importing of casein as far as milk products go.

Mr. Smith. We are not prepared to give you an exact number, but we think it is very, very small.

Mr. Jeffords. You can't give us any figure?

Mr. Smith. No; we can't give you a precise figure on that. I wish we could. It isn't that precise a science.

Mr. Jeffords. Do you have any ballpark figures?

Mr. Smith. We will submit something for the record. We don't want to go on record.

Mr. Jeffords. All right. Thank you.

[The information follows:]

Food manufacturers and other users of casein do so partly on functional grounds but also on the basis of comparative costs. A dairy price support program that sets domestic milk prices at a high level relative to competing ingredients promotes the use of those other ingredients. This is the case with imported casein but examples of domestic ingredients, such as soy protein and whey protein concentrate, can also be cited. Whey protein concentrate, a by-product of domestic cheese production, has seen increasing use (unfortunately, it does little to increase aggregate milk consumption). Imported casein is priced at roughly a third that of nonfat dry milk; whey protein concentrate about one-half. Restricting the flow of such lower cost ingredients will only drive the price of end-products up, thereby raising food prices and curtailing demand. It will also stimulate the search for alternative ingredients to replace higher-priced dairy proteins.

Mr. Coelho. Thank you, Mr. Jeffords.

I find it intriguing, Dick, that you know for sure that it is not 1 to 1, but you cannot quite figure out what it isn't. I mean, I find that—that you are so precise on one side to your benefit, but you are not—you don't have any information as to the other side of it.

Mr. Smith. I think anybody would agree it is not 1 for 1.

Mr. Coelho. How do you know? You don't have these other figures. It seems to me you have got to have these other figures to say it is not 1 to 1.

Mr. Smith. Because you have some chemical uses, for example, and pharmaceutical that obviously you can't substitute it for.

Mr. Coelho. Is that the only reason you are saying it is not 1 to 1?

Mr. SMITH. No. No, I think because we say the evidence is pretty clear that as you move away from——

Mr. COELHO. Is it close? About three-quarters to 1 then?

Mr. SMITH. I am not going to get committed exactly. We will try to give you some ballpark number.

Mr. COELHO. You are admitting that there is some substitution?

Mr. SMITH. Oh, yes, yes. Yes, of course.

Mr. COELHO. We just don't know what it is.

Mr. SMITH. No; I don't know exactly what it is. But we believe it is very, very small. It is less than—it is certainly way less than 50 percent.

Mr. COELHO. Mr. Volkmer.

Mr. VOLKMER. Well, when these studies were made under 22, wasn't there any determination made at that time as to substitution?

Mr. SMITH. I will have to ask our colleague Mr. Clayton to answer that.

Mr. VOLKMER. I mean, was there any actual analysis made of substitution itself?

Mr. CLAYTON. Yes, sir, there was. It was done by broad product groupings, looking really at that—three groups of products, one being those products, as Mr. Smith indicates, things like pharmaceuticals and other areas where you are very likely to have no substitution. A grouping of categories including some of the industrial uses where, in fact, substitutes were—and some company's formulations are already being used—soy substitutes, petroleum based substitutes.

Then there was a group kind of in the middle where, in fact, you could substitute domestic dairy product ingredients for those. And at that point in time it appeared that there was something on the order of—I am not sure if my arithmetic is exactly correct here, but something less than 60 million pounds of casein going into that middle group where, in fact, you could have had dairy product substitution.

Mr. VOLKMER. Now, we do have some idea approximately——

Mr. CLAYTON. That is correct. And moreover, I might say that the thing which happens there is that you have to look beyond just simply the technical substitution possibilities which obviously are very important, but beyond that, there is also an economic substitution question which comes in both in terms of the demand for the final products from which the casein or a domestic product ingredient would be used as well as in terms of substitution between inputs going into those products, and that tends to net away from the 57 or 60 million pounds of casein equivalent that you could compare to nonfat dry milk.

Mr. VOLKMER. Along with that, Mr. Smith, when you do the study that you are going to provide to us on the substitution, I would like to know the dairy product which is being substituted. In other words, was it nonfat dry milk or what it is, so we can figure that out, too, then.

The other thing that I would like to address is the question that you say if we pass this then we place the United States in violation of its international agreement. Do we believe that any other country is in violation of any of our GATT agreements?

Mr. **Smith**. Sure.

Mr. **Volkmer**. What do you think the countries that would be impacted by this would do in retaliation in the event that we would pass this legislation?

Mr. **Smith**. The point I think I am trying to make is that we have a statute in place—in fact, we have two statutes that were passed by the Congress in the law that provide redress for anyone that feels they have a problem because of subsidies under the countervailing duty action. In the case of section 22, we have got a waiver from the GATT which says we can take actions to protect our domestic program and we are not in violation of GATT.

It seems to me those are the procedures we ought to follow. Basically if you understand what you are doing in the legislation is you are saying since it hasn't been done through the section 22 process, that you are going to legislate it.

In that case, it is in violation of GATT. We would be subject to retaliation.

Mr. **Volkmer**. I understand that. But I assure you that there are other areas up here which Members of Congress are quite concerned also, because sometimes we think that the ITC really doesn't know what it is doing. I will be honest with you.

You can look at what the Congress has done in trying to push them on—let's say footwear. It has nothing to do with dairy, but look at—and I am sure that there will be something coming down the pike on such things like textiles there, too, because there is serious disagreement.

ITC a little over a year ago—footwear, said there wasn't any injury. And now they say there is.

Now, what we are saying is we are not saying—what I am saying is maybe that sometimes that Congress views things, then the people that are impacting may be viewed a little bit different, and somebody sitting in an office—you know, in the ITC.

So even though that may technically would probably put us in violation, I don't believe that that in itself is going to concern the Members of Congress so much.

Mr. **Smith**. We do have legislation that established these organizations and procedures and when they were passed by the Congress clearly our international obligations were taken into account. I think we feel that it is important to do the best we can in meeting those obligations. We always have as a country.

So our feeling is that really the processes to use are those that exist, that they do meet our international obligations.

Mr. **Volkmer**. I would much rather use those systems, but sometimes, like I said before, some of the times we disagree with the determinations made within the system and we have no other alternative.

Mr. **Smith**. Nobody can quarrel you have a right to disagree with them.

Mr. **Coelho**. Thank you, Mr. Volkmer.

You are talking about, Dick, agreeing with all these international obligations and so forth, but if I am correct, did not USDA back out of the International Dairy Agreement?

Mr. **Smith**. That is correct.

Mr. **Coelho**. Because you were upset.

Mr. **Smith**. That is correct.

Mr. **Coelho**. So you pulled out of it. So in that particular agreement you decided not to comply with it because of something that one of these countries decides that you didn't like.

It seems to me that what you are saying that when the Department is upset about something, they have the right to ignore it, but when some of us are upset about it, then you say, well, wait a minute, you can't do that because we have these international agreements.

You can't have it both ways, Dick. Now you know that.

Mr. **Smith**. I don't think anybody is telling you, Mr. Chairman, you can't do it. You have clearly got the right to legislate what you want.

I am just raising the point that at least from our perspective if you have already got something in the system that is consistent with our international obligations, why go out of our way to violate them? It certainly makes life a lot more difficult.

Mr. **Coelho**. One of our problems is that the system doesn't work. That is why we want to go out of it.

Mr. Lewis, any questions?

Mr. **Lewis**. No.

Mr. **Coelho**. Mr. Rose.

Mr. **Rose**. Thank you, Mr. Chairman.

Mr. Smith, at what point would you get upset about casein import?

Mr. **Smith**. When it could be demonstrated that it is interfering with our domestic program.

Mr. **Rose**. In my testimony—if you dispute this, let us know—I pointed out that in 19—according to my figures, USDA has concluded that $300 million was added to the cost of the dairy program by imports of casein in 1980, and that $470 million was added to the cost of the program in 1984. Do you dispute that?

Mr. **Smith**. You have to read on. That assumes a 1 for 1 substitution.

Mr. **Rose**. I don't remember making any such assumption.

Mr. **Smith**. Well, that is what that number assumes. It says that in there. In the study where that number came from.

Mr. **Coelho**. Will the gentleman yield?

Mr. **Rose**. Yes, sir.

Mr. **Coelho**. The actual words from the study, Mr. Smith, I will read them to you.

> Actually, if no casein had been imported in 1980, commercial disappearance of domestic skim milk solids would have been increased by the equivalent of 333 million pounds of nonfat dry milk. Thus, Government purchases of nonfat dry milk would have been 330 million pounds lower, saving about $300 million in Commodity Credit Corporation outright.

And then you go on to say that you divide it up into three categories, and we have all the categories here listed and the percentages. Basically, your report is showing that if you eliminated it, that there would be a major impact, a positive for us, so it seems to me that if you restricted it, it still would have it.

Mr. Rose, you may proceed. I just wanted to make sure the record is clear.

Mr. SMITH. I think if you convert that number, you will see that is equivalent to the total imports of casein. The assumption was made in the worst case that if there was a 1-for-1 substitution this is what the number would be.

I don't know of anyone that would believe there is a 1-for-1 substitution and we certainly believe that it is very low.

Mr. ROSE. I don't think that the report says that, Mr. Smith.

Mr. CLAYTON. Could I just respond, please?

You did quote the report correctly. That is what it says.

Mr. COELHO. Thank you, Mr. Clayton. I appreciate that. In my district, they do believe Portuguese can read.

Mr. CLAYTON. I think, though, that the language probably—you know, hindsight is a wonderful thing, but certainly as we look back on the report, we were clearly too precise in what we said there in the sense that the points that Mr. Smith and I have been trying to make that it does, in fact, assume that for every pound of imported casein converted to some nonfat equivalent that if, in fact, you change the availability of imported casein, that that same level of usage would, in fact, continue.

I think perhaps that the important point is that—and if you go in other parts of the report, it is made fairly clear that assumption doesn't necessarily hold. I think even if you read on in the summary to the report itself, we go on, for example, to point out—and I will take the opportunity to quote, if I could, the "already rapid development of nondairy alternatives to casein may eliminate much demand for both casein and skim milk solids. This would seem to be particularly likely and may actually be accelerated if the price of casein increases or if its quantity is restricted."

Mr. ROSE. Let me interrupt you on that and get one little thing straight.

Mr. Smith, you are saying that it doesn't necessarily follow that 1 pound of casein coming into this country displaces 1 pound of nonfat dry milk solids; is that right?

Mr. SMITH. In fact—yes; we are saying it is very low.

Mr. ROSE. Do you know how many pounds of nonfat dry milk it takes to make 1 pound of casein?

Mr. SMITH. Nine—well, it is three.

Mr. ROSE. Three pounds of nonfat dry milk deliver 1 pound of casein, yet you are saying that you import 1 pound of casein you don't displace 3 pounds of nonfat dry milk, you displace something less than 1 pound of nonfat dry milk?

Mr. SMITH. We are saying there are substitutes other than nonfat dry milk that will be used instead of casein. There are other substitutes that will—and you will do nothing to increase milk consumption. The only way it impacts on the program is if somehow you can increase milk consumption. You will not do that if all you are doing is substituting something else.

Mr. ROSE. Where is the casein that has been coming into this country going? It is going 70-percent food use, isn't it?

Mr. SMITH. That is correct.

Mr. ROSE. I mean, that is not being substituted. Seventy percent for food use. Has the production of casein increased significantly in 1981, or is it just that the importers have shifted their marketings to the United States?

Mr. RIESZ. From 1981 through 1984, production overseas has increased substantially.

Mr. ROSE. What percent?

Mr. RIESZ. It has increased from 187,000 metric tons to 239,000 metric tons.

Mr. ROSE. Why do you guess that has occurred?

Mr. RIESZ. There is a market for their product at the price that they can produce it.

Mr. ROSE. Seventy percent of that is going into food uses and you all can sit there and say that this is not having an impact on the dairy program?

Mr. SMITH. That is total world production. That is going to other markets, not just the United States.

Mr. ROSE. Yes; but 70 percent of what is coming into this country is going into food product.

Mr. CLAYTON. The point I am trying to make, Congressman, is that if you cut back on the imports of casein, you can't assume that you will replace the casein with nonfat dry milk. There are other substitutes that are cheaper than nonfat dry milk.

You have got about a 3-to-1 ratio right now in the price between——

Mr. ROSE. What is cheaper to use than——

Mr. CLAYTON. Well, there are soybean derivatives. There are other products, whey protein, for example. If you just cut back on casein imports and you use these, you are not increasing milk consumption, so you are not gaining anything.

Mr. ROSE. Do you remember in 1981 during the ITC investigation that the importers and the dairy farmers had a great disagreement over whether casein imports to the United States would expand beyond the 1981 level—do you remember that? Do you remember the dairy farmer said that the exports would expand and the dairy farmers said—I mean the importers said that they would hold at the 1981 level. The dairy farmers said, no, there is going to be an expansion. The farmers were right; weren't they?

Mr. CLAYTON. I think there is no question the demand for casein is increasing.

Mr. COELHO. But it didn't have anything to do with the Dairy Price Support Program?

Mr. CLAYTON. Nobody is saying it doesn't have anything to do with it. We are saying that there probably is some substitution—I mean that there is some relationship, it is very small, and it is not enough to show that it impacts sufficiently to warrant section 22 action, and it is not just us saying that; the ITC says it, too.

Mr. ROSE. Do you follow the ITC carefully?

Mr. CLAYTON. We did the study first saying that. They did a different one and came to the same conclusion.

Mr. COELHO. If I heard you right, Mr. Clayton, you said increased use of noncaseine products means that casein may not be a factor in the future. That is what you said the report said in 1981, and I assume that is what you people believe.

Now, as I understand your statement, Mr. Smith, you say that there has been an increase, 30 percent, from New Zealand and an increase of 15 percent from the European Community. So in 1981 in the study that you say was too precise, Mr. Clayton, and also says that you may have these other products that will replace casein, and so forth, so it may not be a factor for you to worry about.

Basically you are telling us to cool your jets, it may not be a problem. And then we find out 4 years later that we have had a 40-percent increase from one country and a 15-percent increase from the EC, don't you feel that maybe something has gone astray?

Mr. Clayton. The point I was trying to make, Mr. Coelho, is that you won't necessarily solve your dairy problem by restricting casein. You may, in part—we grant that there is some amount of substitution, but the more important point, I think, is that you drive food manufacturers toward alternative sources of ingredients and I think that that is the point we make, that, in fact——

Mr. Coelho. Have you seen the charts of how the use of nonfat dry milk is going down and the use of caseins is going up? I mean, do you believe in any charts, any graphs of any sort? Do you see there is a cause and effect any way? I mean—Dick, I know you better than this. I don't know why—does OMB have so much control over you that they won't let you say what you really believe? I can't believe——

Mr. Smith. No; I believe this 100 percent. Let me make it simple. As I understand it, the price of nonfat dry milk in relation to casein is about—nonfat is three times more expensive. If you drive that price up of casein to try to get it up to the nonfat, you are going to force those processors to find alternative uses. And there are alternative sources.

Mr. Coelho. Dick, will you just—I assume you can see these graphs. If you look at the one on your left, in 1983, the blue is nonfat dry milk and the red is casein. In 1984, same colors. Now, doesn't that—I mean there is a little bit of a cause and effect, maybe. I mean, it seems to me that USDA should be more concerned about what our domestic industry does and what is happening with New Zealand, which I understand now—Mr. Riesz, you are the Foreign Agricultural Service expert—I assume that is why they sent you here—New Zealand does not domestically use casein. Right? They export over 90 percent of it?

Mr. Riesz. That is correct.

Mr. Coelho. Why is that?

Mr. Riesz. There is a market for it outside, sir.

Mr. Coelho. There is what for it?

Mr. Riesz. There is a good market outside of New Zealand for it.

Mr. Coelho. Wonderful market. And we are like dummies sitting here letting them use it.

Mr. Smith. But, Mr. Chairman, in all fairness, I think you could also do a chart that shows that drownings and the consumption of Coca-Cola go together, and the reason for that is that you drink more Coke in the summertime and you also swim more in the summer. I mean, just because you have these two lines, doesn't necessarily mean that they——

Mr. Coelho. Dick, I will let you take that from the record. I will let you take that off the record.

Mr. Smith. I will not. I will not. I mean, you——

Mr. Coelho. Because I would love to take you on with those comments.

Mr. Smith. You can prove anything with numbers. The fact is that there are different reasons why these lines are changing, is what we are saying.

And to say that the reason our surplus of dairy products is going up is because casein imports are coming in, I don't think you can make that——

Mr. Coelho. Wouldn't you and the Department of Agriculture—aren't you concerned about what is happening with the surplus dairy products?

Mr. Smith. Absolutely.

Mr. Coelho. Wouldn't you want to even just try it and see if maybe you aren't wrong and maybe the dairy industry is right? Wouldn't it be kind of fun just to try it and if it worked, it would take care of your problems?

Mr. Smith. Well, it might be very expensive, too.

Mr. Coelho. How would it be expensive?

Mr. Smith. Well, if we take illegal actions and get retaliated against, somebody is going to pay for it.

Mr. Coelho. Why don't you do what every other country does to it, stall it out for 8, 10, 12 years? Everybody else does it. And in 8, 10 years we could find out if there was an impact; and if there wasn't an impact, you could let them dump it back in here.

Mr. Smith. We are not prepared, or I at least am not authorized to state that we are going to violate our international agreements.

Mr. Coelho. Well, you did. You threw away the international dairy agreements. So when you did one, why not do another?

Mr. Smith. Are you suggesting that we withdraw from GATT? Is that the idea?

Mr. Coelho. Don't get me on that subject. I mean, I could take you on on that one, surely.

Mr. Rose. What do you think we should do to New Zealand for not letting our nuclear ships dock there? Was that to be ignored totally?

Mr. Clayton. I think that is getting a little astray of this hearing. I am not in a position to answer that question.

Mr. Rose. Might it not be wise just to think about a few little things like that?

Now, Mr. Riesz, you said that there was no market for casein in New Zealand.

Mr. Riesz. I said there is a limited market for it. They only have 3 million people to begin with.

Mr. Rose. And they export virtually all that they produce?

Mr. Riesz. Over 90 percent of what they produce.

Mr. Rose. Could it not be that New Zealand does a better job of protecting its domestic dairy industry and helping it and encouraging it than we do in this country? Could that maybe be part of the reason that they export over 90 percent of it?

Mr. Riesz. New Zealand is the primary world supplier of dairy products. They are one of the few unsubsidized producers in the world. And they supply a great deal of the world's butter and nonfat as well as casein.

Mr. Rose. Mr. Smith, I think I hear you when you say that if we restrict the importation of casein, that we don't necessarily solve the problem. You can't prove that that would, of itself, drive the manufacturers back to the use of nonfat dry milk.

So then, what would you have to restrict in addition to casein, Mr. Smith, if you were going to effectively drive the market in the direction of nonfat dry milk, whey?

Mr. SMITH. The whey is produced domestically. In fact, most of the substitutes are produced domestically.

Mr. ROSE. Do you all have the figures on——

Mr. SMITH. On potential, or potential substitutes.

Mr. ROSE. Are you going, in this study that you are going to do for us, are you going to look at the volume of production of potential substitutes in the United States? Can you do that?

Mr. SMITH. We will do our best, give you our best judgment on hopefully what that substitutable ratio is.

Mr. ROSE. You are sure that there are substitutes; but then you are not sure what they are?

Mr. SMITH. As he indicated, the evidence since he did this study shows that there are. And he listed what these are.

Mr. ROSE. And they are whey and soy protein, and what else?

Mr. CLAYTON. Those two in particular come to mind.

Mr. COELHO. Are they domestically produced products?

Mr. ROSE. Thank you, Mr. Chairman.

Mr. COELHO. Mr. Stenholm.

You were shaking your head yes.

Mr. CLAYTON. Oh, I'm sorry. Yes; that is correct.

Mr. COELHO. I just make that for the record.

Mr. Stenholm.

If my colleague would yield for just 1 minute before he starts, let me just make sure I get one point.

You are saying that we have to show that there is a subsidy, as you were saying earlier, right?

Mr. SMITH. Countervailing duty, not on section 22. But on countervailing duty, there are two parts.

One is that there is a subsidy. And, two, that it is injury, except in the case of New Zealand; since they are not a member of the subsidy court, you don't have to prove injury.

Mr. COELHO. It is wonderful for them.

And section 201 of the Trade Act of 1974, you people could take action if there is a demonstration of injury.

Mr. SMITH. Correct.

Mr. COELHO. And nothing about subsidies, nothing about anything else.

Mr. SMITH. Correct.

Mr. COELHO. So is that why you are so hesitant to say that there is injury, or that is why you are so hesitant to say what the impact is?

Is that what is driving us here, Dick, that you recognize that under the Trade Act that if you say something, that then you would be forced to follow through? Is that what is going on?

Mr. SMITH. What I am saying is in the case of New Zealand, you don't even have to show injury; all you have to prove is that there is a subsidy.

Mr. COELHO. But you said earlier they do not subsidize.

Mr. SMITH. That's correct. We don't believe they do it.

Mr. Coelho. Let's knock that one off. Let's not discuss that anymore.

Mr. Smith. OK. Correct.

Mr. Coelho. Let's talk about injury.

Mr. Smith. Right.

Mr. Coelho. Under the Trade Act, if you show injury you can do something.

Mr. Smith. Right.

Mr. Coelho. Are you saying there is absolutely no injury to the American dairy industry?

Mr. Smith. I am saying you have to prove that to the ITC that there is.

Mr. Coelho. Well, I am asking you. You are the Department of Agriculture, Dick. You are the Foreign Agricultural Service. That is what we have you there for.

Mr. Smith. Well, it is not our responsibility to determine injury. That is an ITC function, and they have got some very precise criteria.

Mr. Coelho. In other words, the Department of Agriculture does not take a position in regard to one of its industries and whether or not there is injury coming in from somebody else. You just don't care. It is up to them to prove it to somebody else now.

I've been around the Department of Agriculture for 20 years. Some of them have been aggressive, some of them not.

Mr. Smith. The statute clearly puts the responsibility for determining injury, and ITC clearly——

Mr. Coelho. Nobody is asking you to determine injury. And you will not say there is injury?

Mr. Smith. No.

Mr. Coelho. That's all it is.

Mr. Smith. I am not—I can't say that there is injury. We are not responsible for determining injury.

Mr. Coelho. In 1981 you said there was. And that is the same administration; you were there. I mean, why are we so——

Mr. Smith. We said there was injury?

Mr. Coelho. Yes; you said there was. In the report you said there was.

Mr. Smith. No.

Mr. Coelho. You said there was impact. I mean, don't you think that is injury?

Mr. Smith. The statute states that you have to prove that there is either a subsidy or injury.

Mr. Coelho. Let's go back——

Mr. Smith. I am saying in both cases——

Mr. Coelho. Let's set the same parameters for both of us now——

Mr. Smith. In the case——

Mr. Coelho. Let's talk about the Trade Act.

Mr. Smith. All right.

Mr. Coelho. The Trade Act says only injury. So let's only discuss injury.

Mr. Smith. Are you talking about 201?

Mr. Coelho. Yes.

Mr. Smith. OK. You have to show that there is material injury.

Mr. COELHO. You just have to show injury.

Mr. SMITH. That is correct.

Mr. COELHO. Not material injury; injury.

Mr. SMITH. No, material injury.

Mr. COELHO. Material injury?

Mr. SMITH. That is correct. That is the language.

Mr. COELHO. All right. And you are saying in effect that as far as USDA is concerned, you feel there is no material injury.

Mr. SMITH. I can't make that determination. If somebody wants to prove that there is material injury, there is a procedure to go through to prove it and the ITC has to make that ruling.

Mr. COELHO. And you and the Department of Agriculture are unwilling to even enter into that discussion?

Mr. SMITH. We will provide any information that either side wants, either the ITC or the person that is submitting the petition.

Mr. COELHO. Are you an unbiased jury, is that what you are saying, the Department of Agriculture doesn't get involved?

Mr. SMITH. We have no responsibility for determining injury.

Mr. COELHO. Do you have any responsibility over a dairy industry that may be going bankrupt, that has serious problems? Do you think you have responsibility there?

Mr. SMITH. Yes; we do. We have it in section 22——

Mr. COELHO. And if you do, if they are getting injured by the results of some imports, do you feel you have some obligation to at least point it out to somebody?

Mr. SMITH. We have done that. That is what section 22 is all about. And I repeat——

Mr. COELHO. What about section 201 of the Trade Act? Why keep on going back to the other?

You are saying in one case that section 22 has to show subsidy. I am saying that I agree with you. There isn't a subsidy.

Mr. SMITH. I did not say that, Mr. Chairman.

Mr. COELHO. What are you saying?

Mr. SMITH. Section 22 does not require a subsidy.

Mr. COELHO. OK. What are you saying?

Mr. SMITH. Section 22 has three conditions. And we have said that the Department has done a study.

We came to a conclusion that none of these criteria were met. A subsequent study was done by ITC. They came to the same conclusion.

We do not see that the situation has changed at all, so we do not believe that you can take any action under section 22.

In the case of 301, which is countervailing duty action, which is a petition that has to go to Commerce and also has to be ruled on by the ITC, if someone wants to prove, one, that there is a subsidy, two, that there is injury in the case of countries other than New Zealand, they can get action through fees put on to offset the duties.

You raised the issue of 201, where you have to show material injury. Again, you have to go through a procedure, which the Department of Agriculture is not involved in.

In making a petition, making your case, clearly we will work with any group that needs information, but we are in no position to make any determination on injury.

That is a statute that has been passed by the Congress.

Mr. COELHO. Dick, come on. Don't start playing that game.

We passed the statute to try to get somebody to do something. I would like to see some leadership in the Department of Agriculture. Give me back Earl Butz; he would show some leadership, he wouldn't worry about it.

My colleague, Mr. Stenholm.

Mr. STENHOLM. On some of the questions Tony was just asking you, Mr. Smith, on information anybody wants, you are willing to furnish it. I missed your testimony, I tried to read it here.

But the first question, are imports of casein going up?

Mr. SMITH. Yes, sir; they have been going up.

Mr. STENHOLM. Do you have any figures on 1985?

Mr. SMITH. You want to ask Mr. Riesz; he's got the exact figures.

Mr. RIESZ. Yes, sir; we have the first 3 months of 1985.

Mr. STENHOLM. Based on the first 3 months, what is the estimate for the full year of 1985?

Mr. RIESZ. We have not estimated it out, sir, because the imports do not run on a continuous basis throughout the year.

Mr. STENHOLM. How do the first 3 months compare with the first 3 months of last year?

Mr. RIESZ. The first 3 months are up about 15 percent.

Mr. STENHOLM. Why? Why are imports of casein up since last year, over the previous year, in the first 3 months?

Mr. RIESZ. One reason is that there has been a reported dock strike in New Zealand recently that caused them to increase their shipments in the first quarter.

Mr. STENHOLM. What about last year, Mr. Smith? Why were exports of casein up in 1984?

Mr. SMITH. You mean imports in the United States? Well, the demand is increasing, there is no question about that.

Mr. STENHOLM. Why is the demand increasing?

Mr. SMITH. Because processors are using more casein in production of their products.

Mr. STENHOLM. What effect is this having on our dairy program?

Mr. SMITH. We think very little, because we do not believe that you can show that there is a one-for-one or even close to that of direct substitution.

In other words, if you don't import the casein, you can't make the assumption that what you don't import in casein, these processors are going to use nonfat dry milk. The price relationship is too far apart. What you are going to do is drive them to other substitutes rather than to nonfat dry milk.

So you are not going to have, or if you have any, it will be very little impact on the dairy program by taking action on casein.

Mr. STENHOLM. The European Economic Community countries who we import from, are they subsidizing their dairy?

Mr. SMITH. Yes, sir.

Mr. STENHOLM. No question in your mind that they——

Mr. SMITH. It is a manufacturing subsidy. I think it is pretty clear that their price that they sell it for domestically is higher than they export to the United States.

Mr. STENHOLM. If, in fact, they are subsidizing their exports into this country, do you see any rationale whereby the Department or this committee might put into the same basket for comparable reasons the recently announced export, what I call the export PIK Program?

The first rifle shot we used yesterday in making a sale of wheat to Algeria, as I understand, the first press release that was written, the reason we chose Algeria was because it had been clearly established that in this case the European Economic Community had, in fact, been subsidizing and taking sales that normally would be applicable or available for U.S. interests, and we chose to use that.

Is there any way that we should—or, why should we not look at this increase from particularly the European Economic Community and apply the same rationale?

Mr. SMITH. As I have been trying to indicate, I think that is what the countervailing duty statute is there for, is if someone believes that subsidies are being used to ship a product into this market, there is a procedure to go through that is consistent with our international obligations to get redress.

We just did it in pork, for example, from Canada. And I think that is the procedure people should follow in order to take care of the subsidies.

Mr. COELHO. Would my colleague yield?

What did you say about pork?

Mr. SMITH. Our pork producers made a petition under the countervailing duty statute, and have gotten some relief.

Mr. COELHO. Did the Department of Agriculture or any official with the Department of Agriculture advocate anything in regards to the pork producers' case before the ITC?

Mr. SMITH. We strongly recommended it, that if they felt they had a case, they should bring it in testimony here before the Agriculture Committee, and they did.

Mr. COELHO. Did the Department act as an advocate with the ITC? Did Secretary Block say that he would become an advocate, and did he contact the Commerce Department or anybody else in regards to this case?

Mr. SMITH. No, sir, in fact, we are not permitted to do that.

We can provide information at their request. We can help the petitioner, which we do, in providing all the information that they need. But we cannot actively lobby for a decision from the Commerce Department.

Mr. COELHO. So you are saying for the record that the Department did not act as an advocate in any way for the pork producers nor did the Secretary talk to the Commerce Department in behalf of the pork producers at any time during that process?

Mr. SMITH. I can't make that statement. What I said, that I know we did——

Mr. COELHO. I understand that the Secretary said that he would and he did.

Mr. SMITH. I can't speak for the Secretary.

Mr. COELHO. I find it interesting that you say that you are not supposed to, but the Secretary said he would and he did.

I happen to agree with the Secretary. I think he should have and I hope he did.

But it is interesting that you say that you are not supposed to and you haven't, and then we find with pork that he did. That is a different twist, in my opinion.

The gentleman may proceed, and give him another 3 minutes.

Mr. STENHOLM. One additional question. Have you, or are you aware of anyone who has made a study of what the effect of an 80-million quota limitation on imported casein would mean?

Mr. SMITH. No; I don't believe so. That we have done a study on what the impact of that—no, I don't believe so. I am not aware of any.

Mr. STENHOLM. You have not looked at what the effect of a limitation on the imports would have?

Mr. SMITH. Well, yes, we did. In fact, two studies were done.

As I said, the one we did, ERS did, and we have the gentleman here who authored that study, plus the ITC did one on the general subject of placing either restrictions or duties on imports of casein and came to the conclusion that you would get very, very little impact in relation to the dairy program because of this problem with the substitution.

And, as a result of that, both have stated that taking action through section 22 is not appropriate. It doesn't meet the criteria.

We do not believe the situation has changed any since those studies were made, that that relationship hasn't changed. Clearly imports have increased, but you can't establish that relationship that imports are directly related to nonfat dry milk.

Mr. STENHOLM. No further questions.

Mr. COELHO. Mr. Jeffords.

Mr. JEFFORDS. I had one more question.

When we talk about substitution, we are talking about perhaps using nonfat dry milk if we didn't have casein.

But one thing that interests me that might have a very substantial change in our thinking here is that, as I understand it, about 25 percent of the casein goes to the manufacture of imitation cheese. Does that look about right?

Mr. SMITH. He will look up the figure.

Mr. JEFFORDS. At least that was in 1980. I don't know whether that is still true or not.

Presuming that is correct, and you can correct me if I am wrong, if 15 percent of the cheese market is now imitation cheese, when we talk about injury, are we at all considering that impact?

Of course, that goes on the presumption you wouldn't have imitation cheese without casein. But assuming that is correct, that would be a much more substantial impact than we have been talking about, wouldn't it?

Mr. SMITH. The section 22 aspect of it that we have been looking at, you have to show impact on the dairy program.

Mr. JEFFORDS. Well, certainly cheese is a dairy product and very much involved in the dairy program. That is one of the main things we purchase to support it.

So if we are displacing 15 percent of our normal market by imitation cheese and 25 percent of our casein goes into that production of that imitation cheese, couldn't that be a very substantial impact?

Mr. **Clayton**. Mr. Jeffords, if I might, I don't know whether I want to get into the definition of substantial, but I would point out that, in the absence of the 15 percent that you are talking about, the replacement would be available at a higher price, and that one would expect, at least, that the——

Mr. **Jeffords**. Well, that higher priced cheese would be because they would be using natural cheese, right?

Mr. **Clayton**. Yes, and that the consumption, therefore, would be somewhat reduced from the 15 percent. I can't give you a precise figure on that just sitting here, but——

Mr. **Jeffords**. Or Pizza Hut's profit would be reduced, one or the other, right? I mean, I don't know whether you are going to sell less pizzas because they use imitation or natural cheese. It might increase their costs, or decrease their profits. I mean, I don't know whether I can make that leap with you.

Mr. **Clayton**. I think the manufacturers' margins, obviously, would be affected depending on their individual situations, perhaps, yes.

Mr. **Coelho**. Mr. Stenholm.

Mr. **Stenholm**. The study you referred to, Mr. Smith, indicated in 1980 that if we had completely eliminated all imports of casein, there would have been a budget saving of some $300 million. But if we only got 50 percent of it, we only save $9.3 million.

I am puzzled as to why those two figures are quoted in this study.

Mr. **Clayton**. Let me try and answer that for you, Mr. Stenholm.

The $300 million assumes that for every pound of imported casein converted to some nonfat dry milk equivalent, that in fact you would have used that nonfat dry milk equivalent. For some of the substitution kinds of reasons that we have talked about, that may or may not be true.

The smaller figure which you refer to reflects that if in fact one imposed a quota, what you would do is eliminate that portion of casein users which had readily available alternative ingredients. They would in fact be eliminated. You would be left with a group of people, or group of manufacturers who would choose to perhaps continue to use casein.

That group would be constrained in the amount of approximately 3 million pounds, which works out to roughly 9 million nonfat dry milk and at $1 a pound or so, about to $10 million.

The point being that, given the remedy identified, the fact that you would still have 50 percent coming in, those users would continue, the others would drop out, and you would really only constrain the users by about that 3 million pounds of casein.

Mr. **Stenholm**. What is wrong with that? What is wrong with a policy for this country that would allow those casein imports to fill those needs of which—we obviously don't make any casein for whatever reasons—but to allow that to come in, but to restrain that which is having some impact? What is wrong with that as a policy for the United States as far as our domestic dairy program?

Mr. **Smith**. We would have to show that it is impacting on the program. We don't believe, based on the analysis, that you can make that case.

I think it comes to the general issue of trade. If we are just going to decide to restrict imports without going through the due process that we have established, you know, it just raises another issue.

Clearly, if a case can be made that casein imports are impacting on the dairy program, that is what section 22 is there for. We just don't feel that that case can be made.

Mr. **Stenholm**. No further questions, but just one final comment of the analogy that I drew between the export program and the first shot, and my last question for your further consideration as we analyze the impact on not only the dairy program but our total farm program.

Mr. **Coelho**. Mr. Jeffords.

Mr. **Jeffords**. I would like to correct the record. I made a reference to who was using imitation cheese, and I believe I should point out, apparently, as far as we know, it is only the frozen cheese, the frozen pizza industry, with the exception, as I understand it, Tony's Pizza. There may be other exceptions, but I want to make sure that Tony's Pizza is not included in that group.

But, anyway, thank you very much.

Mr. **Coelho**. Thank you very much.

Mr. Smith, as I understand, you are going to provide us with figures on all these questions that were asked, and our staff will follow through with you on this, Dick.

I would also like to get more data about the amount of imitation cheese used in frozen pizza and where would the frozen pizza industry go if this imitation cheese was not brought in here, where would they get their cheese product. I would like to have that responded to as well.

Mr. **Smith**. We will.

Mr. **Coelho**. All right. We will see what happens.

Thank you very, very much.

Now we will go to our first panel here.

We would like to have in the first panel, Mr. Albert Wanous, board of directors of Land O'Lakes; Mr. Stewart Huber, president of the Farmers Union Milk Marketing Cooperative; Mr. Irv Elkin, president, Associated Milk Producers; Dr. Larry Claypool, senior vice president, research and quality control, Mid-America Dairymen; and Mr. James P. (Tom) Camerlo, president, Mountain Empire Dairymen.

Mr. Wanous, I understand that you have to leave to catch a plane, and if you start, we can get you going so you can make that plane.

STATEMENT OF ALBERT WANOUS, MEMBER, BOARD OF DIRECTORS, LAND O'LAKES, INC.

Mr. **Wanous**. Thank you very much, Chairman Coelho. I do appreciate very much the opportunity to appear before you and give my testimony.

My name is Albert Wanous. I do operate a family dairy farm near Pine City, MN. I market my milk through Land O'Lakes, Inc., and serve on the board of directors of that organization.

I am sincere when I say I appreciate the opportunity to be here. I have been impressed by the hearing so far. I have had the opportunity to be here several times before. I feel we are having a very thorough discussion thus far.

First, I would like to read the resolution adopted by the membership of our organization at the 1985 annual meeting regarding the imports of milk protein.

Import restrictions are required to be placed on any product that materially interferes with agricultural programs or any commodity subject to Government programs. In recent years, 87 percent of the imports of casein and caseinates and other milk proteins have been used in food and animal feed items.

We urge the restriction of imports of milk products which evade section 22 quotas and materially interfere with the dairy support program.

We strongly disagree with the International Trade Commission report which indicates that casein/caseinate imports do not materially affect usage of domestic nonfat dry milk and cheese or interfere with the dairy price support program.

We strongly endorse the Milk Protein Fair Trade Act of 1985 (H.R. 431) which was introduced into Congress by Representative Toby Roth, who testified earlier. This bill would limit casein imports to one-half of the yearly average imports during the period from January 1, 1979, through December 31, 1983.

Such a limit would lower the Government cost of the dairy price support program and reduce the surplus of domestic dairy products.

The feasibility of developing a U.S. casein manufacturing industry should be explored and all effects examined before implementing any program to encourage such an industry.

Inasmuch as the Trade and Tariff Act of 1984 establishes a line-item tariff on milk proteinates, as distinguished from casein, imports of such proteinates should be monitored and, if found excessive, a quota should be established.

That was a policy adopted by the general body of our membership at our last annual meeting in February.

I would also include here that the comments made earlier I find quite disturbing and demoralizing in a sense by the representative from the USDA, Mr. Smith, in that it seems to me we ought to have a great deal of concern for our domestic industry as well as for the international concerns that we do have with our trade relations. I heard a number of times the comment made that other substitutes would be there.

I guess, as a dairyman, I would not be adverse to meeting competition from other substitutes from domestically produced products. It will help one way or another, whether it be a whey protein or whether it be a soy protein derivative. We are willing to compete with that type of competition.

But unfair subsidized competition is difficult for us to handle.

Next, I would like to offer a few comments with respect to the impact of imported casein and other milk proteins on the domestic dairy economy. I believe that casein does, in fact, interfere with the operation of the dairy price support program.

It does so in two ways. First, the casein often replaces nonfat dry milk in many dairy blends that are used in the food manufacturing industry, particularly by the bakery and meat industries.

More important, however, is the use of casein in the manufacturing of artificial cheese, and that is the point that Congressman Jeffords just made.

Cheese is one of the three products purchased by CCC under the dairy price support program. It startled me a little bit to discover that that relationship was not evident to our representative from USDA at first.

As cheap casein makes possible the manufacture and marketing of artificial cheese, it, in effect, displaces domestically produced cheese in the commercial market. As a result, greater amounts of domestically produced cheese must be sold through CCC to clear the market.

Another impact of casein in milk protein imports is that they interfere with the development of the market for a variety of whey protein concentrate, which are relatively new domestic dairy products. These products result from the adoption of modern ultrafiltration technology in the cheese and whey industry.

We believe that whey protein concentrate has great market potential as we learn more about their attributes and functionality. However, the availability of cheap imported milk proteins tends to depress prices and retard market development for domestic whey protein concentrates. And that is the point I was trying to make earlier.

Finally, I would like to remind the subcommittee that the problem in milk protein imports is not limited to casein. There are additional products that require consideration. These include the lactoalbumen, the whey protein concentrate, and milk protein concentrate, sometimes referred to as total milk protein.

Each of these is a relatively new product in the world dairy market, and the problem that they present with the United States is that their ready availability at low or subsidized prices will retard the development of similar products within the United States.

We recommend that the relatively low import quotas be placed on each of these products in order to prevent the same sort of domestic market interference as developed with casein.

Thank you for the opportunity to present my views and those of Land O'Lakes with respect to the import of milk protein products.

I might add that I certainly wish that I could stay. We are in the middle of haying at home, and I hate to miss that flight or I will have to probably stay over another day. So I would like to hear the rest of the testimony. I hope that I can.

Thank you.

[The prepared statement of Mr. Wanous appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much.

Mr. Wanous, you may be excused any time you feel you have to leave.

Mr. Huber.

STATEMENT OF STEWART G. HUBER, PRESIDENT, FARMERS UNION MILK MARKETING COOPERATIVE

Mr. HUBER. My name is Stewart Huber. Mr. Chairman and members of the subcommittee, I am president of the Farmers Union Milk Marketing Cooperative. I am here on behalf of something over 7,600 family farm members who operate in seven upper Midwestern States. I own and operate, along with the rest of my family, a dairy farm in my own right.

I am going to summarize my remarks that have already been distributed, so that you may—I realize it is already getting late.

Mr. COELHO. Your statement will be made a part of the record. We appreciate very much your cooperation.

Mr. HUBER. OK.

I should like to say a couple of things, however. And we want you to know at the outset that we do appreciate your calling this hearing. It is a terribly important subject to those of us in the dairy industry.

We want you to know, too, that we feel we are deeply disturbed by the comments in the preceding testimony that were given by the Department of Agriculture.

We think that dairy farmers have the perception out there, at least, that their Government is playing games with them; that they are continuing to classify imported casein as a chemical or a manufactured product rather than a food; that they are ignoring section 22 purposely, whereas that should be imposed.

We think that they are creating a situation where cheese and nonfat dry milk are ending up in CCC warehouses.

We also think that they are using casein as a weapon, that, in effect, what is going on is that certain military considerations—for instance, deployment of cruise missiles and certain things in New Zealand—may become part of this whole package.

We are concerned that their government is in effect saying to farmers that the product that is labeled so-called nondairy is made out of a product other than milk protein, and therefore maybe have felt benefits that would not be associated with dairy products, even though some of these imported dairy products may be produced under conditions that would not meet domestic sanitary requirements.

I think that is the perception of how dairy farmers feel among our membership out there, and that is really what we wanted to convey to the committee.

We were disappointed when we did this study and when we did our paper to find that there was very little information available on the impact of dairy importation of casein since the USDA did its study in 1981. We just found that there was just very, very limited amounts, although we did a couple of graphs that were very similar to the chairman's in regard to showing the difference between casein and CCC's purchase of nonfat.

We also agree that one of the considerations is that many users of casein in this country contend that casein is a superior product. And exporters, particularly in New Zealand, make that point very well. But, as the chairman pointed out earlier, there is very little use of casein in their domestic industry.

I think casein is a prime example of an international trade policy which is neither free nor fair. And we think that it is appropriate for the Congress to implement or ask the administration to implement section 22, and to enact H.R. 1629 immediately.

Mr. Chairman, members of the subcommittee, we appreciate the opportunity to present our views.

[The prepared statement of Mr. Huber appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very, very much.

Irv Elkin.

STATEMENT OF IRVIN J. ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC., ACCOMPANIED BY NEAL BJORNSON

Mr. ELKIN. Thank you, Chairman Coelho, members of the subcommittee.

I am Irv Elkin, a dairy farmer from Amery, WI. I am also president of Associated Milk Producers, a dairy cooperative marketing association headquartered in San Antonio, TX.

The membership of AMPI consists of more than 31,000 dairy farm families in some 20 States. Through our cooperative, dairy farmers seek to improve the conditions in the markets for their products.

Mr. Chairman, I am accompanied today by Neal Bjornson, and if it is all right, if he sits in, and if you have any technical questions, why, I would appreciate that.

We also appreciate the concern of the subcommittee in convening this hearing to consider legislation addressing a problem that has long confronted the dairy industry. The expansion of imports of casein and casein mixtures, coupled with the shift in use of these products, has resulted in lost markets for U.S. dairy farmers.

In addition, it has placed an increasing burden on the dairy price support program as milk solids displaced by these imports have been diverted to other products, primarily nonfat dry milk, and have been acquired by the Commodity Credit Corporation.

I would like to submit the rest of my printed testimony for the record, and then if we could turn your attention very briefly to the flip chart that I have distributed.

Mr. COELHO. We have no objection to including that in.

I was just about to compliment you on what you were doing. But go right ahead.

Mr. ELKIN. OK.

It has been pointed, and we make no argument with the fact that casein is a good product. It is the principal protein in milk, and is found only in milk. There is no argument in that, in the fact that it is a good product.

I have testified on this same issue more than once, and I am very pleased that members of this subcommittee remember the statements made by our industry at prior hearings, that users were saying at the time that there was no growth aspect to this industry.

We predicted that in time it would continue to grow, and I am very pleased to hear today that you people remembered that we predicted that, and also the fact that it was testified to that it had plateaued, it had leveled off, it would not have increased.

I can assure you that dairy farmers are well aware of this problem. I don't care where you go or who you talk to, they are concerned and well aware of this growing problem of casein imports.

It has been pointed out again that the earlier uses of casein were industrial application in production of paints, plastics, adhesives, paper coatings, and so on. But again, that use has declined, almost disappeared entirely, because I guess of substitutes that they have found for uses in those industries. But the total amount has increased.

On page 3 we have a graph that shows what has happened since 1955 when virtually none of it was going into food and feed, and now the latest one we use, because these are USDA figures, showing some 85 percent that is coming in is now used for food and feed.

We go on to show, again, although these figures have been argued against by USDA, but we believe them to be accurate, that it has cost the program some $300 million because of the displacement of this product.

I think it is important also that Congressman Jeffords brought out the fact that we are not only talking about displacing the nonfat, but this product is going into imitation cheese, which then displaces that. Of course, that backs more into the nonfat and butter side.

We saw a record this past year, in 1984, of 192 million pounds. Of course, what we are supporting here is H.R. 1629, which does allow half of that to come in under licensing. We totally agree with that.

On page 6 we would like to point out that because of the pressure on the dairy price support program, we as dairy farmers have had price support levels reduced $1. We face very possibly further reductions.

We have been assessed to pay part of the program cost, and we are confronted by administration requests, after all this, for effective termination of the dairy price support program because of increased costs. And certainly we take issue with that.

Even, pointing out here on page 6, that at the end of last year—it was during the diversion program when we had drastically, or we had cut production—that actually the amount of displacement was much more than the non-fat dry milk. It was more casein coming in than non-fat was being purchased by the Government.

We believe that H.R. 1629 would limit market loss and increase Government cost by limiting imports of these products. Again, we agree with the 50 percent.

We believe and testify to the fact that since 1970, dairy price support program costs have been reduced by an estimated $1.8 billion.

We pose the question: Why can't we produce casein in the United States? Of course we can produce it. But because of the fact that it has been coming in here, being subsidized by these countries and that was agreed to, we are not able to produce that and compete at that level.

A question posed: Wouldn't import restrictions raise consumer costs and deny an essential food ingredient? Which I am sure you are going to hear about in a few minutes. We again say that for those people who cannot use something else, we would license and allow that.

In many cases, the casein is such a small portion of the total ingredients, it reflects a small portion of the product's increased ingredient cost. So certainly any increase that they would have to pay would be more than offset, we think, by taxpayer savings.

We believe that this is fair and equitable. It halts a continued loss of market for domestic milk solids from growing imports; prevents further market loss when U.S. dairy farmers are faced with reduced prices and having reduced production.

It would assure supplies where substitutes cannot be or are not available, reduce Government costs, and more important than all, it would help strengthen farm income, and we certainly need that at this time.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Elkin appears at the conclusion of the hearing.]

Mr. COELHO. Thank you. Dr. Larry Claypool.

STATEMENT OF LARRY L. CLAYPOOL, SENIOR VICE PRESIDENT, RESEARCH AND QUALITY CONTROL, MID-AMERICA DAIRYMEN, INC.

Mr. CLAYPOOL. Thank you, Mr. Chairman.

My name is Dr. Larry Claypool. I am senior vice president of research and quality control for Mid-America Dairymen, which is a dairy-owned cooperative in the Midwest with approximately 10,000 dairymen who own the company.

I appreciate the opportunity to testify to you that, in our opinion, virtually all products which are utilizing casein today could be reformulated or the processing changed in such a manner that they can be processed with milk solids, or more specifically, milk solids, not fat.

That is a rather bold statement, I recognize, but I am confident in that statement for this reason. As a technologist, when you develop products you have a specific objection. You are trying to build a product, for example, that has a defined protein content.

Perhaps you want one with a highly recognized nutritive value. You will select nonfat dry milk or another liquid such as nonfat milk solids, and you achieve that because of the casein contained in the milk solids, not fat.

Perhaps you want to formulate a product with water-binding characteristics. You will select milk solids, not fat, because of the attributes of casein within the milk solids, not fat.

Perhaps you want to discuss fat binding. The scenario goes on and on in that relationship. It is due to the attributes of casein.

If I might, I want to address an issue you were discussing with USDA. We would be nothing but candid to say that as we reformulate products, we would not do it on a 1-pound-per-1-pound substitution. If you could substitute 1 pound of casein with 1 pound of solids, not fat, we would not be here today. You would not have imports.

Casein comes in at approximately $1 a pound; milk solids, not fat, or nonfat dry milk is approximately 84 cents. The substitution, as has been reported, it takes about 3 pounds of nonfat to make 1 pound of casein.

That carries on when you formulate and use a product. If you are needing so much protein, because there is one-third, about 30 percent protein in nonfat, you are going to have to use 3 pounds of nonfat if you want to incorporate 1 pound of protein into your product.

Casein is manufactured using dairy processing technologies like many manufactured products that are on the market today. But specifically, I would draw your attention to cheesemaking technology.

There is a technological—in dollars and cents—fact that just makes your decisionmaking very easy. As we make cheese, we fractionate milk, and we fractionate milk by coagulating casein.

My old dairy professors would probably kick me if they were here, but I will simply describe cheese as casein, fat, and water, and specifically the cheese we market in the United States, our dairy cheeses, are cheese, milk fat, and water, with the other attributes that go with it.

When casein is manufactured, they take skim milk—that is just milk with the fat removed—casein is coagulated and separated from the aqueous phase, and dried.

An analogy I just might suggest to you, think how we make cottage cheese in the United States. We take milk, remove the fat, and we have skim milk. We coagulate the casein. Prior to adding cream in the manufacturing of cottage cheese, you have virtually pure casein.

So, therefore, I would like to just suggest, as we analyze how a dairy technologist looks at this, I would suggest that casein is a dry, nonfat cheese. As casein comes into this country, then I, a technologist, I can take that product, reconstitute it with water, add vegetable fat, heat it, put it into a mold, and let it set, and I have imitation cheese.

That is a very simplistic description of how this whole scenario comes in.

As a technologist, I must also be a businessman, and I can achieve that, then, for approximately one-third to one-half the price if I make a similar product out of domestically available milk.

To me, the reasons for the impacts are very simple. We produce approximately 4 billion pounds of cheese in this country. It is estimated all the way from Mr. Jeffords' 15 percent—I will go on the conservative; let's say 10 percent—substitution has occurred, and very high in the mozzarella side. That is simply because we add other flavors and we can hide the flavors that we don't like that come with imitation products.

But we are talking about an impact of 400 to 600 million pounds of cheese annually could be produced by this loophole that is occurring, a loophole which is circumventing the protection given to us by Congress.

Briefly I would like to comment of another threat: hoof-and-mouth disease.

Mr. Coelho. Why don't we hold that briefly.

Mr. Claypool. Yes, sir.

Mr. Coelho. We'll hold it there for another minute when we get back. We have to go and vote.

Mr. Jeffords. I would like to ask you, when we come back, as to what the milk equivalent is. I assume it is about 9 to 1.

Mr. Claypool. Milk equivalent of cheese manufacturing?

Mr. Jeffords. Right. Of that 400 to 600 million pounds you talked about, or billion pounds, or whatever.

Mr. Claypool. I will calculate on it while you are gone, sir.

[Recess taken.]

Mr. Coelho. Proceed. You were about to say in conclusion, I think.

Mr. Claypool. Thank you, Mr. Chairman. I want to stress, as I took the bold position, and as I said earlier, that we can formulate the products on the market with nonfat milk solids that currently are purported to be only from casein. I am not saying you can do it on a 1-to-1 basis. Probably in many situations it will take a 3 to 1 to achieve that simply because of the relative concentration.

Casein has 90-percent protein; milk solids, about 30 percent. The question was asked just prior to your adjournment the 400 to 600 pounds of cheese that has been suggested, that would require, if you made the equivalent amount of cheese from milk, that would take 40 to 60 million pounds of milk to make that same amount of cheese. Excuse me, 400 million, that translates to 4 billion pounds of milk to 6 billion pounds of milk equivalent. I slipped a zero.

I feel compelled just to briefly comment that we have another very significant economic potential. Currently casein is coming in from countries that are not free of the foot-and-mouth disease virus. We have a scenario that says that we have product coming into this country fit for humans, unfit for animals. The virus is very heat stable. The scenario is scary. There are literally plans ready for the lifting of the phone that would implement martial law throughout the United States that would result in destruction of infected livestock, burning, burying—it is a very frightening scenario. It has occurred, it is a factual procedure that has been utilized in northern Ireland and countries have had to face it.

So, Mr. Chairman, we appreciate this opportunity to have presented our views. We believe this is a very significant issue for U.S. dairyman, the livestock industry, and the consumer of the United States. Thank you, Mr. Chairman.

[The prepared statement of Mr. Claypool appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very much. Probably a sanitary provision of some sort is required by law to prevent that, but let's——

Mr. Claypool. We would hope that in your wisdom at some point there could be a really down to earth review of the practices that are permitting such products to come into our country. There is kind of a gentlemen's agreement now that no one seems to be able to put their hand on that gives us an assurance that such will not occur.

Mr. Coelho. Maybe what we should, if the staff is listening, we should probably pursue a hearing of sorts if we can get with you to pursue as to some of the areas we should look into. But maybe this is something that deserves——

Mr. CLAYPOOL. At your convenience, we would be more than pleased to.

Mr. COELHO. We would be happy to follow through on that.

Mr. CLAYPOOL. Thank you, sir.

Mr. COELHO. Tom, you want to go ahead.

STATEMENT OF JAMES P. CAMERLO, FIRST VICE PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, PRESIDENT, MOUNTAIN EMPIRE DAIRYMEN'S ASSOCIATION

Mr. CAMERLO. Mr. Chairman and subcommittee, I, too, want to thank you for allowing me to be here today. I am Tom Camerlo. I am a dairy farmer from Colorado, and the first vice president of the National Milk Producers Federation and President of Mountain Empire Dairymen's Association, a dairy marketing cooperative headquartered in Denver, CO. The National Milk Producers Federation is a national farm commodity organization representing dairy cooperative marketing associations.

I have a written statement, and I ask that the chairman include this statement in the subcommittee's report.

Chairman Coelho, I salute you for conducting this hearing. It is a true indication of this subcommittee's concern for the dairy farmers in this country. I would also like to commend both Congressmen Roth and Rose for your interest in our deep problems in the U.S. dairy industry.

Section 22 of the Agriculture Adjustment Act of 1939 was designed to prevent impairment of the operation of agriculture support programs such as the Dairy Price Support Program by excessive and unnecessary imports. Since 1953, a comprehensive system of section 22 import restraints has been applied to dairy products. In each instance, the application of such restraints grew out of the need to prevent interference with a Dairy Price Support Program by imports of a specific product or products.

According to the 1981 study by the Department of Agriculture, 53 percent of the casein used in the United States in 1980 went into products for which domestic milk solids could be used. The study's basic conclusion was that the import of casein added some $300 million of cost to a Dairy Price Support Program in 1980. Continuing to add to that cost, casein imports escalated from 150.8 million pounds in 1980 to 192.5 million pounds this past year. Even more recent data indicate that casein imports have continued their recordbreaking increases.

For the first 3 months of 1985, casein imports have increased over 18 percent over the 1984 imports during that same period, 18 percent. While 1.3 percent of the casein used in this country in 1955 went into food and animal feed products, 85 percent was used in food and feed in 1980 according to the International Trade Commission investigation, No. 22–44. Even if the percentage did not continue to climb, this meant 163.6 million pounds of imported casein was used in food and feed products last year, creating additional surpluses in our domestic market.

The milk supply and demand situation in the United States since 1980 has been one of substantial surplus. At its peak in marketing year 1983, Government purchases of surplus products totaled 16.6

billion pounds of milk equivalent and cost more than $2½ billion. Recognizing the unacceptable nature of surpluses and program costs, dairy farmers work continually with you and Congress since 1980 to develop programs to bring supply and demand and program costs back to acceptable levels.

Many approaches, as you know, were tried. At first the support price was frozen so as not to stimulate further supply. Next, dairy farmers began paying an assessment on every hundredweight of milk marketed commercially. Dairy farmers began paying assessment in April 1983 and continued paying assessments of either $1 or 50 cents until March 31, 1985. As the assessment decreased, the price support level decreased, thus continuing the price impact on U.S. dairy farmers.

A third 50-cent decrease is expected on July 1, and will total $1.50 decrease in the support price since December 1983. In total, dairy farmers paid to the Treasury nearly $1.5 billion, an attempt to help bring Government costs into line. Also a milk diversion program was tried, and it was successful during the 15-month period, January 1, 1984 to March 31, 1985, during which time Government purchases and costs were cut in half from the level of the preceding marketing year.

That means we, as dairy farmers, and at my farm in Florence, CO, and shortly in a few days are going to be paid $1.50 less for my milk. I cut my production 22 percent to try to help this situation through the diversion plan. I am paying 15 cents a hundredweight for promotion under a new $200 million promotion program. All this was done to help sell more product and to produce less. We are producing less. We have sold 3 percent more product with our additional advertising programs.

Yet, as a dairy farmer I would have to say that this increase is being negated by 35 percent by just the increase in casein imports. The diversion program has now ended and milk production has shown some movement toward a greater imbalance. Dairy farmers continue to be concerned with this imbalanced situation, and as you know, are working diligently toward a resolution. Just about 2 months ago, we appeared before this committee to present a program which hopefully will again restore balance to the dairy industry.

The programs we are proposing would, again, call for producer financing so that dairy farmers can have a reasonable program to provide the industry with stability without high budget exposure. The National Milk Producers Federation and its members find it unconscionable that the administration allows the importation of dairy products to continue at a time when dairy farmers have been asked to make such sacrifices to bring milk supply and demand into balance and reduce Government cost.

Casein is the lowest valued use of milk. When other, higher valued uses cannot be found for milk, it is manufactured into casein. That means that this country is absorbing the surplus of other countries, and the American dairy farmer is being asked to pay the bill.

In conclusion, imports of casein and other milk protein have increased and are continuing to increase at a rapid rate. These imports continue to displace large quantities of domestic milk and milk products. This displacement is resulting in increased purchases and costs under the Dairy Price Support Program. The National Milk Producers Federation endorses congressional action to limit the importation of milk protein products, including casein, caseinates, lactalbumin, whey protein concentrates, and mixtures containing not less than 5 percent of any product previously listed.

Thank you, Mr. Chairman and subcommittee members.

[The prepared statement of Mr. Camerlo appears at the conclusion of the hearing.]

Mr. **Coelho**. Thank you very much, Tom.

Mr. Jeffords.

Mr. **Jeffords**. Thank you, Mr. Chairman. Mr. Claypool, I have some questions for you. If my figures are correct, the figures are so staggering that I want to try and get a little verification.

Mr. **Claypool**. Yes, sir.

Mr. **Jeffords**. If you take $17 a hundredweight, what it costs us to purchase our surplus between the price plus the storage and all, and you multiply that times the 4 to 6 billion pounds of milk equivalent that imitation cheese may be replacing, that indicates to me there is about a $680 million to $1 billion cost to taxpayers.

Mr. **Claypool**. I haven't made the calculation, Mr. Jeffords, but with the assumption that in fact we would replace or gain back that market on a 1-to-1 basis, I believe your calculation would be accurate, yes.

Mr. **Jeffords**. Let me, then, get to that second part of the presumption there. Are there other alternatives to casein that you know that are available and which would be acceptable and economically feasible in place of casein?

Mr. **Claypool**. We have done some exploratory work to try to have an awareness of that very question, and I would stress the word, exploratory. The soy bean industry, I believe, is very aggressive in trying to perfect their products so that they would have an equivalent replacement for casing. I think they see this as a potential coming down the road.

In our evaluation—I will say it in that fashion—we have not seen a product that replaces casein or has the functional characteristics that casein presently has. The products that we have seen lack in their physical characteristics when you make an imitation cheese out of it, and they also have the unique flavor characteristics that are associated with soy products.

They are making progress. No one discounts that they are aggressively seeking to develop products that could perhaps be an option in the formulating of imitation products. But I don't think they are there today is what I am saying.

Mr. **Jeffords**. Thank you.

Second, can you tell me so that I just get a little bit better feel of the situation as to what percentage of the weight of imitation cheese casein constitutes?

Mr. **Claypool**. What percent of imitation cheese is casein?

Mr. **Jeffords**. In weight, yes, what pecentage of the weight?

Mr. **Claypool**. The formulas that I have seen, and the products will vary a little bit, but they all center around the 22 to 25 percent casein—normally around 25 percent because recognizing that 1 pound of casein is usually about 90 percent protein, and most of your imitation cheeses are formulated so you have a minimum of, say, 22 or 23 percent protein.

Mr. JEFFORDS. What I am trying to do, and maybe not right this moment, you could help, is to try to take the figures you are giving me and to equate them to the utilization of casein and more specifically the substantial increase in the amount of casein coming in to see if those figures jibe so we can verify that the rather large money figures that we come with. I appreciate—not maybe at this moment, but if at some time you could give me some help——

Mr. CLAYPOOL. We stand ready to assist anytime you or your staff would like for us to help.

Mr. JEFFORDS. I appreciate that very much, and I want to thank all the witnesses for excellent testimony. It has been a very interesting day, and we can't wait for the last panel. I deeply appreciate it and thank you. That's all I have, Mr. Chairman.

Mr. COELHO. Mr. Volkmer.

Mr. VOLKMER. Yes, Mr. Claypool, I was very interested in your characterization. Basically, casein is a—what was it—dry cheese?

Mr. CLAYPOOL. I feel very, as a food technologist, that that is a very appropriate terminology; yes, sir. And I come from the cottage cheese scenario, that if you dry cottage cheese, you have casein. That is a dry cheese.

Mr. VOLKMER. And there is quite a bit of substitution possible with the use of casein for dairy products.

Mr. CLAYPOOL. In cheese products?

Mr. VOLKMER. No; in all dairy products, the substitute for them.

Mr. CLAYPOOL. It just falls in almost as a given because you are dealing with a portion of milk itself, so you take casein—like if you make a coffee whitener. If you want a good coffee whitener, you want whitening power, put some casein in there. Then you have an imitation half and half.

Mr. VOLKMER. In other words, all you have to do is basically replace some of the parts that were taken away that come back to the dairy.

Mr. CLAYPOOL. Exactly, sir.

Mr. VOLKMER. You have got the integral part of the casein.

Mr. CLAYPOOL. An example, if you really want another prospective, there are blends out there today which are being sold in competition to nonfat dry milk. You take casein, you buy it at $1 a pound, you go out and buy whey solids, which is what really remains, wherever you are making casein, has a value of about 15 cents a pound in this country. And so I put 1 pound of casein with 2 pounds of whey solids, and I have for all practical sake, duplicated the composition of nonfat dry milk at a cost of—and my mathematics aren't rolling quite that fast.

Mr. VOLKMER. About $1.30, it sounds to me like, instead of $3 or $2.

Mr. CLAYPOOL. Well, in comparison to nonfat, I only used 1 pound—excuse me, I used one-third pound. I would use 1 pound of casein and 2 pounds of whey solids to make 3 pounds of product, you see. And that is only going to cost me like $1.30 to replace 3 pounds of nonfat dry milk, which is 3 times 84 cents is $2.52. And that is today. That is a very big market out there.

So it is a matter of using that very functional dairy ingredient that is available at one-third price and recombining in various forms.

Mr. **Volkmer**. I was just wondering if our Department people realize that this is going on. In their testimony, they appear not to know that there was much substitution going on.

Mr. **Claypool**. I have more faith in our USDA Department. I believe they know it.

Mr. **Coelho**. What does that mean about what they were saying today, then?

Mr. **Claypool**. It kind of lowers your faith a wee bit.

Mr. **Volkmer**. In other words, they know what is going on, but they just don't want to admit it. They don't want to admit it. Thank you, Mr. Chairman.

Mr. **Claypool**. Thank you, sir.

Mr. **Volkmer**. I, too, want to thank the panel for being here. You have been very helpful.

Mr. **Coelho**. Mr. Gunderson.

Mr. **Gunderson**. Thank you, Mr. Chairman. I want to apologize to you and to the rest of the people testifying for not being here earlier. I have been involved in a floor debate all afternoon, and it was finally completed.

One of the things that amazes me when we talk about casein——

Mr. **Coelho**. I might say, before the gentleman proceeds for the record, that this bill was supposed to have been completed yesterday and Mr. Gunderson would have been here. So we recognize the problem that you have.

Mr. **Gunderson**. One of the questions that was challenged to me when I spoke at the convention of the American Milk Producers recently by one of their members, was a very valid question on this classification issue. How can something come into this country under GATT classified as an industrial product, and then somehow be allowed to be used as food?

Can any of you shed some light on that?

Mr. **Bjornson**. Congressman Gunderson, the tariff classification of a product has, at least in most instances, no bearing on its end use, a great many of the products, when you look at the food label, on a great many of the products we find in the supermarket today, it reads more like a chemical formula. Because of the high degree of processing and many of these products, the tariff classification has no bearing really on its end use so long as in the eyes of Food and Drug Administration—I think the term they use is "safe and suitable." It won't make you sick.

But the question, of course, really here is the impact this has on the dairy industry, on the Dairy Price Support Program. USDA, in 1981, said that it added $300 million to the cost of the Dairy Price Support Program in 1980. Later, when the International Trade Commission held an investigation to determine the section 22 import restriction should be applied, USDA went before the Commission and said, yes, our findings in that study were right, but we have no recommendation for action.

Largely on the basis of the lack of the USDA recommendation, the first time in a section 22 action that USDA had not made a recommendation to the Commission, largely on that basis the Commission said there is no material interference with the Price Support Program. The bill Congressman Rose has introduced provides two elements; the 50-percent limitation—the second element is as important as the limitation itself, because this is where the benefit would flow. The licensing process would assure adequate product for those uses for which there is no substitute, and there are some.

It would assure availability for those uses where something besides milk would be used. And this licensing concept wasn't developed by the dairy industry, or at least the basis for it. The basis for it was developed by USDA. That is the classification—the use classification they developed as part of their 1980 study.

Mr. GUNDERSON. OK, thank you. Thank you, Mr. Chairman.

Mr. COELHO. Mr. Penny.

Mr. PENNY. Mr. Chairman, I don't have very many questions due to the fact that I am already a cosponsor of the bill and in sympathy with the industry on this issue. But I would like to speak to the issue of USDA involvement in this area. To what degree have any of you or your organizations been in contact with the Department, and to what extent are they willing to help you out in addressing this very important issue?

Sometimes we know the answers before we ask them, but I would like to get it on the record from any of you who are willing to respond what contacts you may have made and what response you got from the Department.

Mr. BJORNSON. Mr. Penny, in terms of talking to requesting statistical information, information on use, we have discussed these issues over quite some number of years with people in Foreign Agricultural Service, with the Economic Research Service. And the people who did the study in 1980, the people in Foreign Agricultural Service, during all this period, have been very helpful in terms of providing the background information if you have got a specific request.

We would hope we would look to the Department, however, to assume something of an advocacy role in this process. Section 22 says that if the Secretary of Agriculture makes a determination that there is reason to believe that imports of a product are interfering with a price support program. He will ask the President; he will inform the President, and so on.

That really implies an advocacy role. We would disagree with Mr. Smith—respectfully disagree with Mr. Smith—that they have no advocacy responsibility.

Mr. HUBER. Mr. Penny, we, in preparing our paper, went to the Department and asked them for considerable information. We found that they lacked a lot of information in regard to the amount of artifical cheese, for instance, that is being produced, and what percent of the market it is, and what percent is being made from casein and so forth. We found that the amount of information especially since 1981 is very very brief.

We suspect that it may be deliberate on the part of the Department to keep the information scarce so the administration does not have to invoke section 22. That's our opinion.

Mr. PENNY. It is not your view that there are any limitations on the Department's authority to involve itself in this area.

Mr. HUBER. I can't speculate.

Mr. **Penny**. We do have, and I am going to provide it for the record as soon as it arrives, a letter sent by the Department, signed by Mr. Block, to the Department of Commerce at a time when we were trying to get a ruling on the hog import issue.

Mr. **Coelho**. Would the gentleman yield?

Mr. **Penny**. I will.

Mr. **Coelho**. Are you saying that the Secretary of Agriculture, on his stationery, wrote a letter to the Department of Commerce urging action in regards to the pork issue?

Mr. **Penny**. I imagine they might fudge on this because the wording couldn't necessarily be described as citing facts and statistics and making a case except it was a letter urging a resolution as soon as possible.

Mr. **Coelho**. I happen to agree with the facts submitted, it is just interest because Mr. Smith here said, when he testified, that that was not their proper role and that is why they were not doing it with dairy. And we specifically questioned him on pork and they said they did not take an advocacy role.

Mr. **Penny**. Well, it depends on how you define advocacy. But at one point, they did write a letter to the Department of Commerce asking for a ruling as soon as possible, though they may claim that they weren't advocating what the result of that ruling might be. They were certainly advocating that we needed a determination as soon as possible for the benefit of the pork industry.

Mr. **Coelho**. Thank you.

Mr. **Penny**. I do know, as well, that during the campaign months last fall, that both the President and Secretary Block, on at least one occasion, made assurances to the pork industry that they were sensitive to that issue and would do everything that they could to expedite a decision that would be favorable to the pork industry. Now whether behind the scenes they followed through is something that I think would be tough for us to document. But they made public assurances to that industry that they were going to do what they could to provide relief to that industry.

And I don't see that the circumstances facing the pork industry differ much, if at all, from the kind of circumstances that we face here in the area of importation of casein.

I have no further questions, but I would reserve the right to submit for the record that letter from the Secretary to the Department when it arrives here.

Mr. **Coelho**. Thank you very, very much, Mr. Penny. We appreciate and we will insert it in the record when it arrives.

Mr. **Coelho**. I think it would be appropriate if Mr. Jeffords agrees that he and I could send a letter to Mr. Smith. Mr. Volkmer and Mr. Penny will definitely be interested in this. We don't want to appear in any way saying that we are opposed to him taking action on the pork situation. We are appreciative of the fact that they took action there.

We just would like him to do the same thing with dairy cows. And if Mr. Block owned a dairy cow or two, he might do it.

Mr. **Penny**. I appreciate the chairman's sentiments in that regard and join in encouraging you to send that kind of a letter.

Mr. **Coelho**. We would just like clarification. We would leave the bit out about owning a dairy cow.

Mr. Penny. OK.

Mr. Jeffords. I would certify that there is such a letter. I know I have seen it and was one of those that urged him to take some action on the Canadian situation. So I know that such a letter does exist.

I certainly have no disagreement in getting a copy of that, but I would point out that there is a possible noninconsistency here in the sense that I am not sure that there is necessarily a demand—I think they have an advocacy role, and I think——

Mr. Coelho. But that is not what Mr. Smith said this morning.

Mr. Jeffords. Well, I don't think he quite said that. Anyway I will take a look at the letter.

Mr. Coelho. Thank you, Mr. Penny. Mr. Rose.

Mr. Rose. Thank you, Mr. Chairman.

I think it would be clear from what Mr. Smith said that we wouldn't hire them as our lawyer if we were in serious trouble.

Mr. Elkin, we have heard a lot of talk today about how the dairy industry has been buffeted by cheap casein imports. You could almost get the impression that you could make the case that somehow you haven't been able to compete efficiently against all these imports. I know it has been tough, and it has had its impact, but what can you tell us about the efficiency in dairy product processing and production by dairy co-ops even in the face of this cheap casein?

Mr. Elkin. You addressed that to me?

Mr. Rose. Yes, sir.

Mr. Elkin. There is no question that the dairy industry continues to be more and more efficient all the time. Certainly we know that we have a lot less dairy farmers, unfortunately, even more milk than we did when we had the greater numbers, but even more so as far as plants are concerned, we continue to consolidate plants, improve plants.

In addition to being overall corporate president, I sit on more of a regional pool where we have a lot of manufacturing plants. I can think of a few years ago when we had to approve this, we spent some $18 million in 1 year just updating our plants, new evaporators and more efficient evaporators and driers. We have plants that used to handle 500,000 pounds of milk that now handle 1 million, 1½ million, and cheese plants that have been doubled. So they certainly are more efficient. We have spent a lot of money to make them efficient. In other words, we have a lot less plants to handle this capacity.

Mr. Rose. I should have probably asked this to Mr. Smith, but I didn't. Would you comment a little bit on whether or not—how do you feel about the importation of casein from hoof-and-mouth disease countries? Does the public understand that? Do you think that people understand that there is a potential problem here?

Mr. Elkin. Very likely not when you talk about the public as such. Certainly the livestock industry has to understand because they would be aware of it. Again this issue has been around for a long time and when the question was asked about approaching the Department of Agriculture, we did that. We did it with the last administration. And we were reminded that was antifree trade, and we were all pro traders. So that was about as far as we could get.

We also, in digging into some of those things, found that when this product does come into this country from countries that are not free of hoof and mouth, that any of the containers or anything that came along with that must be burned immediately, you know. And there was concern that some of these might find their way out, you know, some of the help take something home or something. There has to be a concern.

Mr. **Rose**. Whose regulation is it that they have to be burned?

Mr. **Elkin**. That is a Government regulation if it comes in from any countries that are not free of hoof and mouth. But there is also that concern that some worker may take home something. That could happen.

Mr. **Rose**. All right. Thank you very much, Mr. Chairman.

Mr. **Coelho**. I also want to thank the panel. I think you have brought out several points that were needed, particularly after the witness that proceeded you. So we appreciate it very much.

The next panel will be made of Dr. Warren S. Clark, executive director, American Dry Milk Institute; Mr. David Senter, national director, American Agriculture Movement, Mr. Max N. Berry, general counsel, Committee to Assure the Availability of Casein, and the Hon. C.W. McMillan, government affairs advisor to the New Zealand Dairy Board.

Dr. Clark, why don't you proceed while everybody is coming to the table.

STATEMENT OF WARREN S. CLARK, JR., EXECUTIVE DIRECTOR, AMERICAN DRY MILK INSTITUTE, INC.

Mr. **Clark**. Thank you, Mr. Chairman.

My name is Warren Clark. I am executive director of the American Dry Milk Institute, which is located in Chicago, IL, and it is a nonprofit national trade association for manufacturers of dry milk products. Our members manufacture the majority of the dry milk products produced in the United States. Those products include nonfat dry milk, dry whole milk, and also dry buttermilk.

Mr. Chairman, I have a statement that I have already submitted to you. There are several enclosures with that statement. If you would be kind enough to accept them for the record.

Mr. **Coelho**. That will be made a part of the record. You may proceed.

Mr. **Clark**. I would appreciate it. And then I will make my remarks brief.

The American Dry Milk Institute fully supports the provisions of H.R. 1629, and concurrently the identical provisions and intent of H.R. 431 as proposed by Mr. Roth, to limit milk protein products imported into the United States to a quantity equal to 50 percent of the average annual quantity of such products that entered during the 5-year period from January 1, 1979, through December 31, 1983.

We also support the import licensing system for these products that has been proposed in the current bills.

You have my statement, and I hope that you will find the information in there helpful to you in your considerations.

One thing that I wanted to be sure that we are all talking in the same terminology about is that the proposed import is applicable to all TSUS items reflecting casein, and there are three specific line items in the tariff schedules of the United States and we hope that the combination of these will be applicable to the quota that is being discussed.

In view of the current situation with regard to casein and casein product imports, the current domestic milk production and existing CCC stocks, this import situation, to our way of thinking, is both deplorable and tragic. We feel that a mockery has been made of all persons associated with decisionmaking and policy setting as it relates to management of the domestic dairy industry.

Our industry did not believe casein import projections given at the 1981 ITC hearing on casein, although apparently some persons did. We believe the facts speak clearly in support of our views at that time.

Obviously, we are not receptive to more of the same empty rhetoric at this time.

I now would like to address some comments to other milk protein products covered by H.R. 1629, namely, lactalbumin and whey protein concentrate, both of which currently are in vigorous stages of development and/or commercial production in the United States.

These products have numerous uses as nutritious food ingredients and thus are opening up new and extensive markets for domestic dairy products. In November 1982, the American Dry Milk Institute and also the Whey Products Institute, which I also am executive director of, jointly filed a petition with the U.S. Customs Service regarding the tariff classification of total milk proteinate, whey protein concentrate, and lactalbumin.

The petition sought to reclassify these products from the broad tariff classifications outside the dairy area, which, importantly, gave no indication of the basic constituents of the products into existing dairy classifications.

Notwithstanding overwhelming and almost unanimous support for the proposal, Customs denied the petition. Our industry then pursued the matter, and on July 30, 1984, Senate bill 2883 was introduced to recognize, define, and establish specific tariff classifications for these three dairy products.

This legislation subsequently became part of the Senate trade bill, was approved by Congress as the omnibus trade bill and, as you know, was signed by the President. As a result of these actions, line items were established within the dairy section of the tariff schedules for the three new products, milk protein concentrate, lactalbumin and whey protein concentrate.

Only since January 1, 1985, have data been available on the quantities of each of these products—if properly identified and labeled—being imported monthly. Because these products are derivations of dairy products currently subject to import quotas under section 22 of the Agricultural Adjustment Act, their level of import is being monitored closely to determine if the import levels interfere with the domestic dairy support system and also as importantly, if not more so, hamper our own dairy industry in its early attempts to find its way out of the current dairy crisis.

Attached to my statement are the import data reported to us for the period January through March 1985. And yesterday after I submitted my statement, we got additional information and I now make available to you an additional blue sheet which has the information on imports through April 1985.

Unfortunately, the figures on TSUS items for whey protein concentrate, lactalbumin and milk protein concentrate are too recent to give us much information. Customs officials now are dealing with new dairy items and it likely will take time on their part to recognize and properly designate dairy product imports into their correct classifications.

However, it is important that this designation be closely monitored as in addition to the casein imports to date in 1985, casein mixtures, as well as other casein mixtures and chief value thereof are being imported. And as the other casein mixtures category formerly contained milk protein concentrates and other dairy products, such dairy products still then may be reflected in this category.

If the relatively high level of imports under the TSUS items of 493.12, 14 and 17 continue, it is the intent of our industry to request—and perform as necessary—compositional testing to determine the validity of the classifications.

In the absence of extensive historical data for milk protein concentrate, lactalbumin, and whey protein concentrate imports, we recommend that quotas be established at 250,000 pounds annually for each product.

It is our understanding that this recommendation and request comes at a time well before imports of these three products reach a crisis level in this country. By that I mean we are informed by Customs that only small quantities of the three dairy products under discussion currently are entering the country.

Thus, established markets and established interests that are dependent on the import of these products do not exist. Establishment of the quota recommended will, we believe, be in the best interest of the U.S. dairy industry, as well as the related industries and consumers it serves.

In conclusion, Mr. Chairman, we wish to reiterate our full support for the provisions of H.R. 1629. We encourage the members of this subcommittee to carefully consider our comments and recommendations and to include all casein and casein products within the 50 percent quota level based upon the 5-year base period.

Additionally, we urge the establishment of nonconflicting quotas of 250,000 pounds yearly for each of the three dairy products, milk protein concentrate, lactalbumin, and whey protein concentrate.

Mr. Chairman, thank you for the formal means that you have afforded us to comment at this time. We hope that our comments will be useful to you and we will be pleased to respond to any questions or observations as you pursue this matter either today or at some future time.

Thank you.

[The prepared statement of Mr. Clark appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Dr. Clark.

Mr. PENNY. Mr. Chairman.

Mr. Coelho. Yes.

Mr. Penny. Before we move on to the other witnesses, would it be all right for me to enter into the record a dialog that occurred on Wednesday, May 23, 1984, between Mr. Smith of the USDA and the chairman of the subcommittee at that time, Mr. Harkin, and this subcommittee hearing was on the hog import issue?

Mr. Coelho. Yes, you may.

Mr. Penny. I have here from that subcommittee hearing testimony in response to a question by Mr. Harkin a statement by Mr. Smith of the Department. I guess it would probably be best if we included perhaps the entire exchange in the record here, but I want to specifically include this paragraph, which is the last paragraph that appears in the record. It was the last statement made by Mr. Smith at the hearing that day.

> All I can say, Mr. Chairman, is that we appreciate the opportunity, and we think it is important to get this information out and we will certainly work with your producers any way we can to help them put together whatever case they want.

That was in response to questioning at the subcommittee hearing as to whether the Department would make information available to the pork industry to help them in their case before the ITC and the Department of Commerce.

[The material follows:]

930

REVIEW THE IMPACT OF CANADIAN TRADE ON U.S. LIVESTOCK PRODUCERS

HEARING

BEFORE THE

SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

MAY 23, 1984

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Mr. Harkin. All I know is that on the poultry case it drug on for 3 years.

Mr. Nelson. That is not the same procedure, sir. That was a 301 International Subsidy Code issue, and there has been no determination in that case yet.

Mr. Harkin. I know that.

Mr. Smith. I think you are absolutely correct if you go the GATT route. The reason we are talking countervailing duties is that it is controlled here in the United States. It has been established by Congress with very specific timetables to address the thing. That is separate from the GATT.

Countervailing—the law that we have on the books is GATT compatible. We administer that.

All I can say, Mr. Chairman, is that we appreciate the opportunity, and we think it is important to get this information out and we will certainly work with your producers any way we can to help them put together whatever case they want.

Mr. Harkin. Thank you. I just join with Mr. Bedell in saying thanks to you, and especially Mr. Mills—I have never met the man—and to your other people.

[Mr. Mills stands up from the audience.]

Mr. Harkin. Thank you, Mr. Mills, for all of the studies that you have done and the information. It has just been invaluable. We will proceed from this.

The subcommittee was going to go on, but it looks as though we are running a little bit behind. Therefore, the subcommittee will stand adjourned until 1:30. We will pick up at 1:30 with our panelists from the Pork Producers and others.

[Whereupon, at 12:06 p.m., the subcommittee recessed, to reconvene at 1:30 p.m. the same day.]

AFTERNOON SESSION

Mr. Harkin. We continue our hearings from this morning on the impact of Canadian trade on United States livestock production.

Our panel this afternoon is: Mr. Wayne Walter, president of the National Pork Producers Council, who is here from Kansas; Mr. Tom Miller, who is with the Western States Association, from Arizona; Mr. Don Gingerich, from the Iowa Pork Producers; and Mrs. Sandy Gifford, the Michigan Pork Producers Association.

They are accompanied by Mr. Doyle Talkington, from the National Pork Producers Council.

Ladies and gentlemen, again welcome to the subcommittee.

Mr. Walter, we have a copy of your statement. Without objection, it will be made a part of the record.

I would just recognize you to proceed as you so desire.

STATEMENT OF WAYNE WALTER, PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, ACCOMPANIED BY DOYLE TALKINGTON AND C.D. VAN HOUWELING, STAFF MEMBERS

Mr. Walter. Thank you, Chairman Harkin and members of the subcommittee.

My name is Wayne Walter. I am from Kansas and am president of the National Pork Producers Council.

Mr. Coelho. If I understand that, Mr. Penny, what you are saying is that Mr. Smith, who appeared here earlier and said that their role was not to be an advocate, is in this particular case—and I want to stress here that I think all of us in this subcommittee agree rightfully was advocating that he put together the case for the pork producers so that they could make the best presentation possible to the agencies involved.

We happen to think that that is the role of the Department of Agriculture, but today he was saying that they don't—they will be happy to supply any information anybody asks, but not to put together the case.

Mr. Penny. In this instance they were willing to help supply the information to the industry so that the industry could put together the case and I don't think that he was as forthcoming today on the casein issue as he seemed to be on the hog issue a year ago.

In addition, those letters that I referred to earlier are here. One is dated March 5, 1985. It is from the Secretary of Agriculture to the Secretary of Commerce, simply indicating that the U.S. agricultural industry is under stress and the U.S. pork producers need, as soon as possible, a ruling from the Department of Commerce on that hog import issue and I would like to submit that for the record, and another letter from the Secretary of Agriculture, Mr. Block, to me dated May 1, 1985. If both of those could be included in the record, I would appreciate it.

Mr. Coelho. I would be happy to make them part of the record, and we will send a letter to Mr. Smith asking if they would not be willing to do the same thing on behalf of the dairy farmers.

I appreciate your bringing that up.

[The letters follow:]

MAR 5 1985

Honorable Malcolm Baldrige
Secretary
U.S. Department of Commerce
Washington, DC 20230

Dear Mr. Secretary:

The growing pressures currently facing U.S. Agriculture and the continuing concerns of U.S. pork producers regarding the increasing importation of live hogs and pork products from Canada necessitates an early response to the National Pork Producers Council's petition seeking countervailing duties on live swine products entering the United States from Canada. Accordingly, we urge you to make available the Department of Commerce determination on the question of subsidies as soon as possible prior to your April 1 scheduled deadline.

Sincerely,

s/Block

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DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

Honorable Timothy J. Penny
House of Representatives
Washington, D.C. 20515

May 1 1985

Dear Congressman Penny:

Thank you for your letter concerning the current trade situation with respect to hog imports from Canada.

We provided the President briefing materials on this and other agricultural trade issues for his meeting with Canadian Prime Minister Mulroney on March 17-18. Ambassador Brock and Canadian Trade Minister Kelleher discussed trade issues in depth in Quebec City and we anticipate holding further discussions with the Canadians on specific trade issues in agriculture in the near future.

The U.S. Department of Commerce (DOC) announced on March 27 that it was notifying the International Trade Commission (ITC) of its preliminary determination that exports of live swine, and fresh, chilled, and frozen pork products from Canada are being subsidized. The DOC said the net subsidy has been determined preliminarily to be Can $0.053 (currently US $0.039) per pound. The U.S. Customs Service began applying a bonding/deposit rate of this amount on all U.S. imports of live swine and fresh, chilled, and frozen pork from Canada on April 3. In its preliminary investigation, the DOC found that a number of provincial and federal programs, principally price support programs, provide subsidies to live swine and pork products. The DOC investigators will soon go to Canada to verify the accuracy of all data so far presented and gather additional information. The final determination by DOC is due by June 10. The International Trade Commission will now continue its investigation of the economic impact of imports from Canada on the U.S. industry to determine whether these imports are injuring, or threaten to injure, the U.S. industry.

We share your concern over the use of chloramphenicol on Canadian hogs destined for the United States. The Department of Agriculture's Food Safety and Inspection Service is testing for residues of this substance in pork on an on-going basis. We have also urged the Canadian Government to consider restricting the use of this drug in animals intended for export.

We appreciate your continued interest in this matter.

Sincerely,

John R Block

John R. Block
Secretary

Mr. **Coelho.** Dave, you may proceed.

STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. **Senter.** Thank you, Mr. Chairman. I will be very brief and just ask that my statement be entered into the record.

Mr. **Coelho.** Without objection, so ordered.

Mr. **Senter.** The American Agriculture Movement is a general farm organization, but we felt it very important that we appear here representing our dairy producers and standing with the dairy producer industry in support of H.R. 1629.

We feel very strong that this legislation needs to be adopted. In 1981, when we were working on farm bill that year, AAM supported the casein language in that bill and supported all the way through because we felt like the threat was there for drastic increases in casein imports to the United States.

I feel like after listening to the USDA presentation by Mr. Smith that anyone in attendance that might have questions about whether to support it or not should now be convinced that we have to have quotas on casein imports to protect domestic producers.

We realize that this legislation is not going to solve all the problems of the dairy industry. We are going to work with this subcommittee and other members and dairy groups to work toward adequate legislation in the farm bill, to have an adequate price support program so that our dairy producers can make a profit and stay in business producing a good product for this country.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Senter appears at the conclusion of the hearing.]

Mr. **Coelho.** Thank you very much. I appreciate that.

Mr. Berry, you may proceed.

STATEMENT OF MAX N. BERRY, GENERAL COUNSEL AND EXECUTIVE DIRECTOR, COMMITTEE TO ASSURE THE AVAILABILITY OF CASEIN, ACCOMPANIED BY HAROLD STEINKE, VICE PRESIDENT, BORDEN, INC.

Mr. **Berry.** Thank you very much, Mr. Chairman, and distinguished members of the subcommittee.

My name is Max Berry. I am the general counsel and executive director of the Committee to Assure the Availability of Casein, referred to as the CAAC. On my right is Mr. Harold Steinke, the vice president of Borden, Inc., a member of our committee, to help me on any questions you might have.

Mr. **Coelho.** We probably will have a few.

Mr. **Berry.** I hope so.

We have a lengthy statement. I know each of you are anxious for me to read every word of it, but because it is late in the day, I would like to ask the chairman permission to have my statement incorporated into the record of the proceeding, and then, if that is acceptable, I would go and merely just ad lib a statement, highlighting some of our views on this subject.

Mr. **Coelho.** Without objection, sir.

Mr. **Berry**. In addition, Mr. Chairman, since we have heard an awful lot about Government studies on casein today, I would like to have also introduced into the record and for the staff—they may not have it—the 1979 fact-finding study on casein by the International Trade Commission; the 1980 fact-finding study by the Department of Agriculture on casein; and the 1982 report by the International Trade Commission on casein as a result of the section 22 hearing.

If that is acceptable, I am introducing these Government reports in the record.

Mr. **Coelho**. Be glad to have it made part of the record, without objection.

[The reports are held in the committee files.]

Mr. **Berry**. Thank you, Mr. Chairman.

One might think that with all these Government reports in the last 5 years—and actually, there is three and not two—someone said there was two. There is two ITC and one Department of Agriculture.

There is also a Department of Agriculture report back in the mid to late seventies by Mr. Floyd Lassly, which is really four studies. Secretary Bergland and other secretaries previous to him had more or less an annual request for a section 22 hearing on casein.

For the reasons that Secretary Bergland used in each of his years, and for the reasons expressed in all three of these Government studies, which I think were independent and thorough—we didn't call for them, CAAC didn't call for them. The gentlemen who have testified before us all wanted these reports, stimulated them.

Each of them in detail said simply that there was no serious impairment to the price support program because of imports of casein. And I think that to take the USDA report out of context would not do this subcommittee justice or the subject.

For the abstract of that report, as contained in my statement, it merely says that this study examines economic implications of restricting importation of casein and lactalbumin, and says if under a 50 percent maximum quota or duty raise under section 22, if either of these were imposed, users of casein would shift to soy-based protein and other ingredients wherever possible, although product quality could suffer.

Some casein use would be replaced by skim milk solids, but not enough to significantly affect CCC purchases under the Dairy Price Support Program. Import restrictions would increase the cost of producing goods containing casein and thus raise prices to consumers.

Now, as I have put in my statement that is the holding of the USDA report. We can argue about—but that is the finding of it.

Also in the fact-finding report of 1979 by the International Trade Commission they more or less said the same thing. They studied the economic—in the 1979 report I have got on page 4 a quote. And I will just read a little part of it.

> The data collected during the course of the Commission's investigation indicate virtually no relationship between imports of casein and mixtures of casein and purchases of nonfat dry milk under the price support program in recent years. Likewise, no clear relationship is apparent between imports and domestic production or

consumption of nonfat dry milk. Additionally, no clear relationship is apparent between imports of casein and mixtures of casein and other forms of domestic dairy production.

It goes on and so does the report that I quoted on page 5 in 1982. What I would ask the committee to do, to abbreviate my statement, and knowing that your time is short——

Mr. **Coelho**. We would appreciate that.

Mr. **Berry**. I will ask you to turn to the charts. We have seen a couple of charts today. I would like you to look at some of ours, right past page 6. I have three charts here. And it shows casein imports, the first one, from 1970 to 1984. And it relates it directly to casein purchases of nonfat dry milk in those years.

For instance, if you take any of those years—you can pick them as well as me and use them any way you want to. We are doing it—these are factual reports.

You take 1979 and 1980, for instance; casein imports in both those years were the same, 151 million pounds. CCC purchases of nonfat dry milk in 1979 were 255 million pounds but in 1980 they were 634 million pounds. They tripled.

You can go all through this chart. You can see in 1975 when casein imports dramatically decreased during a recession, CCC purchases increased. There is no relationship.

We turn to the next chart. I am sure you will study these afterwards and we will be very happy to come in and chat with you about it. It shows the same thing only by a graph. The CCC purchases of nonfat dry milk from 1965 through 1985, 20 years, is like a roller-coaster, up and down and very jagged curves where the casein imports are quite steady and going sideways.

Or if you take consumption, the next chart, it shows the cheese consumption goes up from about 4.5 pounds per capita in 1910 to almost 27 pounds in 1984. Whereas the consumption of casein has gone rather sideways from a quarter of a pound in 1920 to around three-quarters of a pound in 1980.

But when you look at these charts, especially the first two, I really think that when you can get years where casein imports drop and CCC purchases either triple or quadruple, you have a tough time saying there is a relationship between the two.

Also, I would like to say one thing, that really a lot of what we are talking about is consumer preference. Many of you people, like I, have in your offices coffee whiteners. The dairy farmer on the farm, she has many of our casein products in their homes.

I have listed here on the back 34 different types of consumer products that they might have, ranging from potato chips and pies and cereals to sauces and sour creams and soups and then I took a random of a Dallas supermarket and listed a whole bunch of products from Campbell soups on to pet foods that you might see, and Hostess cupcakes.

The truth of the matter—and this is something I think the committee really should study—you cannot functionally, chemically substitute nonfat dry milk in any of these products. You cannot substitute nonfat dry milk in coffee whiteners or in these other products that are listed.

You can substitute nonfat dry milk in calf milk replacers and a few other products. We think, and the ITC thought, the substitution factor would be less than 10 percent. In other words, in over 90 percent of the products made by casein or using casein you could not get a substitution of nonfat dry milk. It is just not possible.

I know you want to check that out because I am a lawyer talking to you about a technical thing and you might think I might not know what I am talking about.

Mr. COELHO. I wouldn't say that, but a technical person just said the absolute opposite just a minute ago.

Mr. BERRY. I understand.

Mr. COELHO. I have dealt with many attorneys and I know that they can argue any side of the issue they want.

Mr. BERRY. Well, that is very true.

Mr. COELHO. That is what they are paid to do.

Mr. BERRY. But this one attorney—you may not believe this, Mr. Chairman—is 100 percent convinced that he is right.

Mr. COELHO. Well, you are paid to do that, aren't you?

Mr. BERRY. Yes, sir. But you may not believe this, but I have really turned down a lot of cases where I didn't believe in them. I believe in my case. I have attached an article that was in 1981 to my statement from Bob Kaiser of the Washington Post, "How a Lobby Milks a Nonissue." He talks about Dr. Clayton's 333 million pound figure and quotes Dr. Clayton on the last page of his article——

Mr. COELHO. Yes. Mr. Berry, we will go through those ourselves. You don't have to take us through them.

You have run out of your 5 minutes. So if you want to conclude, we would be happy to listen to your conclusion.

Mr. BERRY. Is it time for me to conclude?

Mr. COELHO. You have about 20 seconds.

Mr. BERRY. I want to thank you for listening to me. I would encourage the committee to study the various documents that have been prepared by our Government, especially the last three reports that were done since 1979, all concluding that casein does not, in fact, materially interfere with the price support program.

I would like you to look at the consumer products that use casein, and since nonfat cannot be substituted, ask yourselves do we want to eliminate those products from the market place or make them more expensive.

Mr. COELHO. Thank you very much.

Mr. BERRY. Thank you, Mr. Chairman.

[The prepared statement of Mr. Berry appears at the conclusion of the hearing.]

Mr. COELHO. Mr. McMillan, you may proceed.

STATEMENT OF C.W. McMILLAN, GOVERNMENT AFFAIRS ADVISOR, BRONZ & FARRELL, COUNSEL TO NEW ZEALAND MILK PRODUCTS, INC.

Mr. McMILLAN. Thank you, Mr. Chairman.

I am C.W. McMillan, and I am government affairs advisor to the law firm of Bronz and Farrell, which is counsel to the New Zealand Milk Products, Inc. Petaluma, CA.

New Zealand Milk Products is a U.S. corporation wholly owned by the New Zealand Dairy Board, which was founded some 15 years ago to market in the United States, a whole range of dairy products manufactured in New Zealand which are allowed access to this market.

I have a lengthy statement, Mr. Chairman, and in the interest of the time, we will shorten it up, but would appreciate its inclusion in its entirety in the record.

Mr. COELHO. Without objection, so ordered.

Mr. MCMILLAN. Thank you, Mr. Chairman.

A lot of reference has been made today to the findings of the ITC. I will not go into any particular detail on that, but to emphasize again that they found no damage and in our opinion nothing has changed since that investigation.

It is important, however, to realize that there is no domestic production of casein, which is, as has been stated, not a substitute for domestically produced dairy products. It continues to be used for functional and nutritional characteristics which are not shared by nonfat dry milk.

Its production in the United States was made uneconomic over 30 years ago by the adoption of the Dairy Price Support Program itself because of the open-ended offer of the U.S. Government to buy nonfat dry milk at artificially high prices.

No U.S. dairy processor would even consider producing casein for a competitive market while nonfat dry milk remains at present prices. The casein industry based on a product price that is equivalent to the U.S. support price for nonfat dry milk would not be viable because at such a price demand virtually would disappear.

Caseins do provide, however, substantial benefits by contributing to the production of economic, convenient, and sometimes essential products. Likewise, other milk protein product imports, such as whey protein concentrates and lactalbumins, are designed as functional food proteins.

Whey protein concentrates are used in special dietary preparations and nutritional supplements. They are ideal proteins for the preparation of infant formulas which simulate the specific characteristics of mother's milk.

Lactalbumins are used for fortification of a wide variety of cereal goods which generally contain lower quality proteins, such as breakfast cereals, pasta, cookies, and pizza crust. U.S.-produced whey product concentrates normally have a protein concentration of 34 to 35 percent and are used primarily as milk replacers and fillers.

These lower protein products are not incorporated in foods to utilize the functional characteristics of the protein that they contain, whereas the New Zealand produced product—which is 55 percent or higher in protein—have a much wider and nutritionally more flexible utilization.

New Zealand is the largest supplier of casein and other milk proteins to the U.S. market. It is a stable and constructive trade which New Zealand has developed with a highly diversified and technically advanced group of products tailored to consumer requirements.

This is a sophisticated group of food ingredients resulting from years of research and a large capital investment. As dairying is one of the basic sectors of the New Zealand economy, it is most dependent upon this trade while small by U.S. standards is particularly significant to New Zealand.

No other major industrialized country imposes restrictions on these products that are being shipped to the United States. Any such restriction imposed in the United States would violate the U.S. obligations under GATT, and that has been discussed today at some length, but it is significant that in the case of dairy products the United States was granted a waiver by the GATT per section 22 of Agriculture Adjustment Act of 1933.

In seeking that waiver the United States made a statement which set forth the conditions under which restrictions could be imposed, and particularly the United States undertook to impose restrictions only after an ITC investigation and Presidential determination that the imports were interfering with the price support program which, we feel, is a condition that is clearly not met in H.R. 1629.

To couch such legislation in section 22 language does nothing to meet the U.S. obligations under the GATT waiver, and would entitle supplying countries to retaliate.

I appreciate very much, Mr. Chairman, the opportunity to appear before you today. And I would be happy to try to answer any questions you may have.

[The prepared statement of Mr. McMillan appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Bill.

Mr. Volkmer.

Mr. Gunderson.

Mr. GUNDERSON. Thank you, Mr. Chairman.

Let me be brief. Mr. Berry, let me direct a couple of questions to you. First of all, you suggested that there was no impact of casein on the U.S. market or on Government purchases; is that correct?

Mr. BERRY. No relationship. What I was doing, Mr. Gunderson, was citing the three Government studies that had been mentioned so heavily today, and then introducing what I thought were evidence back 15, 20 years establishing that.

Mr. GUNDERSON. Let me quote to you, if I might, from the USDA study of 1980, I believe is the date on this study. Excuse me. June 1981. On casein.

Let me just quote to you from that statement on page 6. "If no casein had been imported in 1980, commercial disappearance of domestic skim milk solids would have increased by the equivalent of 333 million pounds of nonfat dry milk. Thus, Government purchases of nonfat dry milk would have been 333 million pounds lower, saving about $300 million in Commodity Credit Corporation outlay."

Wouldn't you say that that does have an impact?

Mr. BERRY. I would say that that statement is 100 percent incorrect.

Could I explain why I am saying that?

Mr. GUNDERSON. Sure.

Mr. BERRY. Thank you very much.

First of all, it assumes that zero casein is coming into this country. Second, it assumes 100 percent——

Mr. **Gunderson**. It doesn't assume that at all. It says "if no casein had been imported."

Mr. **Berry**. Well, if none was coming into this country, means imported. And then if you had no—then it assumes that you have then 100 percent substitution for nonfat dry milk in the casein products that were otherwise made prior to that, and it is functionally and scientifically impossible.

Let me just quote one thing in answer to the question from the attached Washington Post story. Kenneth Clayton who testified earlier——

Mr. **Gunderson**. Wait a minute. You are disputing USDA, but you are quoting the Washington Post as valid. I just want to make sure.

Mr. **Berry**. No, sir. First, the USDA report, which I quoted, and its abstract holds differently, says different things, so the conclusion is far different, and what I am quoting from the Post on the last page is an interview——

Mr. **Gunderson**. Just a second. You know why they came to their conclusion which is different than their facts because they said $300 million was not substantial over the cost of the entire dairy program. That is the only reason they came to that conclusion.

Mr. **Berry**. Mr. Gunderson, 77 pages of their report, 66½ page concludes otherwise. And that one-half page was completely out of context.

Mr. **Gunderson**. Did you listen? Mr. Berry, did you listen to what I just said?

Mr. **Berry**. Yes, sir. I did.

Mr. **Gunderson**. What did I just say? I don't think that you listened at all.

Mr. **Berry**. You said I am coming—I am citing the Washington Post as an authority——

Mr. **Gunderson**. No, I didn't say that. You were trying to respond to my original statement by saying that USDA came to a different conclusion. I said, yes, they came to a different conclusion because they decided that in their opinion $300 million was, quote, not a substantial impact on a dairy price support outlay that was over $1 billion, that that was the only basis for their conclusion.

Mr. **Berry**. Mr. Gunderson, this report concludes that because of the nonuse of nonfat and other products made by casein and because of the substitution downward to soya and wheat glutens and otherwise, that the $333 million, they don't use that figure, they use a figure that would probably be a $10 million savings to the support program and that is in other parts of the report.

The reason I am trying to say about the Washington Post is simply in an interview Clayton said it wasn't realistic to use this hypothetical, which is the $333 million, and it wasn't realistic, and I am agreeing with what he said to the Washington Post——

Mr. **Gunderson**. You are human. We all agree with people who agree with our positions or make statements in agreement with our position.

Mr. **Berry**. No; it is impossible——

Mr. **Gunderson**. Let me ask you another question. The CAAC membership, I was interested. You have four members from the

State of Wisconsin. I will say I am tempted to issue a press release in Wisconsin suggesting who they are, but I might not do that.

Second, I would be interested, however, as to what percent of the casein of your membership is used for substitute cheese. Any idea?

Mr. **Berry**. I think it is approximately 25 percent. Mr. Steinke may have—that was the best we—how much casein is used in artificial cheese by our membership?

Mr. **Gunderson**. Used to create artificial cheese.

Mr. **Berry**. Well, in our membership, there is about 5 out of 35 or 40 companies that make artificial cheese.

Mr. **Gunderson**. How much of that do you believe would be used to make products with a substitute for dry milk, or they would substitute casein?

Mr. **Berry**. They wouldn't in any case. It is impossible to substitute dry milk in their products, functionally.

Mr. **Gunderson**. OK.

Thank you, Mr. Chairman.

Mr. **Coelho**. Thank you.

Mr. Berry, if I heard you correctly, you were bragging about all these items that had casein in them. And rightfully so. You should.

As I heard you say that it was impossible to substitute casein that is in those products. What did you say?

Mr. **Berry**. In about 90 percent of them.

Mr. **Coelho**. Ninety percent of them?

Mr. **Berry**. Yes, sir.

Mr. **Coelho**. I did not hear that 90 percent word earlier. I heard it was an absolute. But all of a sudden now you have changed it——

Mr. **Berry**. No; my absolute was—you are right. My absolute was on the little attachment I have here, about 34 different products.

Mr. **Coelho**. Starting with what?

Mr. **Berry**. Infant formula for baby food.

Mr. **Coelho**. That is what I wanted to hear.

Mr. **Berry**. OK, sir.

Mr. **Coelho**. So on this list that I am now referring to, the same list you are referring to, you are saying that in those products that absolutely you would have to have casein in those products; right?

Mr. **Berry**. Yes; that is correct.

Mr. **Coelho**. Now—baby formula.

Mr. **Berry**. Mr. Steinke might correct me if I am wrong there. But the baby formula—what casein is used for is baby formulas when babies have lactose intolerance.

Mr. **Coelho**. So you are saying that on Meade Johnson instant formula, baby formula, they would have to use casein?

Mr. **Berry**. In their formula—the only formula they make using casein is in the formulas for lactose intolerance, and the answer is yes.

Mr. **Coelho**. Did you hear me?

Mr. **Berry**. Yes, I did. I should have said on that list with lactose intolerance. They don't use casein——

Mr. **Coelho**. Meade Johnson does not use casein?

Mr. **Berry**. Yes, they do, sir.

Mr. **Coelho**. Well, I was told they didn't.

Mr. BERRY. They do in their special infant formulas for babies who have a lactose intolerance.

Mr. COELHO. OK. So you are now revising this to say that in special instances you can't substitute.

Mr. BERRY. Yes, and I should——

Mr. COELHO. So that your statement earlier was not correct.

Mr. BERRY. I was not right in making a general statement. You are right. I should have said——

Mr. COELHO. Thank you. I appreciate that.

Mr. BERRY. Yes, sir.

Mr. COELHO. Now, let me also ask you: You heard some comments earlier about sanitary problems in regard to casein coming in from certain countries that could end up causing foot-and-mouth disease here in our country. You have not addressed that in your testimony, and I can understand why not.

But would you address that now, please?

Mr. BERRY. I would be happy to. Casein that comes in from foot-and-mouth disease countries is called restricted casein. It comes in under very special rules and regulations administered by the Department of Agriculture, or the APHIS branch, and an importer signs an affidavit when he gets the casein that it is going to be used only in certain uses. In other words, not in animal feeds where we would run a risk of foot-and-mouth disease.

Mr. COELHO. But it could cause foot-and-mouth disease in animals, but it is all right to feed to humans?

Mr. BERRY. I guess humans don't get foot-and-mouth disease, but that is essentially correct. It does go to a warehouse that is supervised by the Department of Agriculture and then followed under——

Mr. COELHO. Are you sure that humans are not affected at all by foot-and-mouth disease?

Mr. MCMILLAN. Mr. Chairman, may I intercede?

Mr. COELHO. Bill, I like the way Mr. Berry is answering his questions. I don't want you to help him.

Mr. MCMILLAN. Well, I feel compelled because while I was at the Department—and I put that in the past tense, and I want to underscore that.

Mr. COELHO. OK. I understand.

Mr. MCMILLAN. One of the areas of jurisdiction that I had was the Animal and Plant Health Inspection Service.

Mr. COELHO. I am quite aware of that. That is why I didn't want you to answer these questions.

Mr. MCMILLAN. But the point is that it does come in under very restrictive conditions. There is a prohibition to go into animal feed, for example, if it does come in from countries known to be infected with foot-and-mouth disease. So it is very tightly controlled.

Humans have the ability of getting "foot-in-mouth" disease, not "foot-and-mouth" disease.

Mr. COELHO. Some people at this hearing have that problem.

But you are in effect saying, Mr. McMillan, that humans are not impacted at all by that particular disease in any way.

Mr. MCMILLAN. That is correct.

Mr. COELHO. So that if we permit those imports for human consumption, we are not endangering the health conditions of any humans. Is that correct?

Mr. MCMILLAN. That is correct.

Mr. COELHO. Are you sure of that?

We will pursue that question with you when my staff is sure of their answer here. I would like to know the answer before I ask the question.

Being that you asked to be involved in this, Mr. McMillan—I was going to skip you. I liked the way Mr. Berry answered the questions.

Mr. MCMILLAN. I would be glad to step aside.

Mr. COELHO. No, no. You stepped in, so we will keep you in right now.

I heard earlier in the testimony that New Zealand exports over 90 percent of the casein that is produced. Can you tell us how much? You represent New Zealanders. How much do they export?

Mr. MCMILLAN. In terms of tons, I couldn't give you a precise answer at this moment, but I can—— ——

Mr. COELHO. What about percentage?

Mr. MCMILLAN. I think that of the casein production, approximately 90 percent of the New Zealand casein production is exported, yes.

Mr. COELHO. Why don't they use more of it at home if it is so darned good?

Mr. MCMILLAN. They are a different country than the United States, obviously. They are an agrarian country.

Mr. COELHO. They don't want to hurt their dairy industry; right?

Mr. MCMILLAN. I think they might have that in mind. But the point is that a broader export market does exist for casein. For example, in the United States there is a demand that they are filling. It is a void that is being filled in the United States by the New Zealand exports.

Mr. COELHO. So you are in effect saying that New Zealanders do not like to use dairy imitations in their own country? They export that to some other country.

Mr. MCMILLAN. They utilize caseins and whey protein and other things in products in New Zealand as well. But they are a much smaller country and their market is small. I think they have more dairy cows in New Zealand than they have people. I am not sure that is an accurate statement but in perspective, I think it brings the situation into——

Mr. COELHO. Not if you export over 90 percent of it. I mean, there is an implication there of something. I am not sure of what.

Well, we appreciate the hearing very much today and this panel, and in particular it helped add to the overall discussion of this issue. You can be sure that you will be hearing a lot more from us in the weeks ahead.

Thank you very much.

The subcommittee will be adjourned.

[Whereupon, at 4:45 p.m. the subcommittee adjourned subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF THE HONORABLE FRANK HORTON
BEFORE THE
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY
REGARDING CASEIN IMPORTS
ON
JUNE 7, 1983

Mr. Chairman, I would like to thank you for holding this hearing on casein imports and urge you to take expeditious action to stem the rising tide of casein. We must make every effort to protect our domestic dairy industry and remove this needless drain on the federal treasury.

Recent projections indicate that the Commodity Credit Corporation will acquire the milk equivalent of anywhere from 8.5 to 10 billion pounds of surplus dairy products. At the same time, we will soon be importing the skim milk equivalent of nearly 8 billion pounds of casein.

This has had particularly serious implications for the New York State cheese industry. Casein, as you know, is a milk protein used extensively to produce imitation dairy products. Cheese being the most common. The New York State Department of Agriculture estimates that 1/3 of all frozen pizza sold nationally contains imitation cheese made with imported casein. Casein, I might add, is heavily subsidized by the governments of the producing nations.

In order to alleviate this problem, I have been working with my good friend, and fellow member of the New York Congressional Delegation, Congressman Dave Martin, to convince the FDA and U.S. Customs to re-classify casein as a dairy product. Both the F.D.A. and the Customs Service now indicate that they can take no action unless Congress moves to amend the tariff schedules.

I would like to submit a copy of the correspondence Congressman Martin and I had with U.S. Customs. The response we received indicates the complexity of the regulatory problem we face and supports the need for legislative action.

Congreſs of the United States
House of Representatives
Washington, D.C. 20515

April 24, 1985

The Honorable William Von Raab
Commissioner, U.S. Customs Service
U.S. Department of the Treasury
1301 Constitution Avenue, N.W. 20229

Dear Mr. Von Raab:

We want to take this opportunity to bring to your attention the problems associated with the impact of imported casein on our dairy farmers and its use in competition with American dairy products. As you will note from the attached letter from the U.S. Department of Health and Human Services, we have been advised that the classification of casein comes under the jurisdiction of the U.S. Customs Service.

While we in the Congress prepare to address the problems in the dairy industry legislatively, we would like to request the assistance of the U.S. Customs Service in bringing about an action which would affect that situation in a positive way.

According to projections we have seen, the Commodity Credit Corporation this year will purchase the milk equivalent of about 8.5 billion pounds of surplus from American dairy producers. Yet, we will soon be importing the skim milk equivalent of about six billion pounds of casein, a milk protein used extensively in the production of imitation dairy products, particularly imitation cheese.

In other words, we are, astoundingly enough, importing the equivalent of virtually two-thirds of our surplus non-fat dairy products. We are sure you would agree that this hardly makes sense when the Federal government is spending so much money to purchase and store the surplus of our domestic dairy industry.

In our view, this troublesome situation should be addressed by a reclassification of casein as a dairy product by the U.S. Customs Service. It is our understanding that the Service currently classifies casein as a chemical product even though, for example, more than one-half of the pizza sold nationally has imitation cheese made from imported casein. Incidentally, casein is heavily subsidized by the exporting countries.

By reclassifying casein as a dairy product, we would subject it to dairy import rules and fees, as it should be. We would enable real cheese, the production of which is one of the most prominent uses of milk, to compete equitably with imitation cheese. And we would see a sharp increase in the use of domestically-produced milk in the national marketplace.

Your assistance in achieving this most appropriate reclassification of casein would be deeply appreciated by every dairy farmer, livestock producer and grain farmer in the United States, and by every American taxpayer.

Respectfully yours,

Frank Horton

Frank Horton, M.C.

Dave Martin

David O'B. Martin, M.C.

DEPARTMENT OF THE TREASURY
U.S. CUSTOMS SERVICE
WASHINGTON

MAY 10 1985

REFER TO
CLA-2:CO:R:CV:G
076113 TLL

The Honorable
Frank Horton
House of Representatives
Washington, D.C. 20515

Dear Mr. Horton:

Thank you for your letter of April 24, 1985, suggesting the reclassification of casein.

The Customs Service is an administrative agency charged with the responsibility for enforcing approximately 400 laws for some 40 different Government agencies. The Tariff Schedules of the United States (TSUS) is one such law.

Currently, casein is provided for by name in item 493.12, TSUS, and is duty-free. The language of item 493.12, TSUS, specifically excludes products described in item 118.45, TSUS, from being classified as casein. Item 118.45, TSUS, provides for a 0.2 cent per pound duty for milk protein concentrate. Milk protein concentrate is defined by Headnote 1, Subpart D, Part 4, Schedule 1, TSUS, as meaning any complete milk protein (casein plus albumin) that is 40 percent or more protein by weight. If Congress were to amend the tariff schedules to reclassify casein as a dairy product, then the Customs Service would classify casein as you request. Copies of these provisions and Headnote are enclosed.

Presently, there are no restrictions upon the importation of either casein or milk protein concentrate. If casein were to be classified as a dairy product, such reclassification, as such, would not restrict the importation of casein.

RECEIVED
MAY 19 1985
CONG. FRANK HORTON
WASHINGTON OFFICE

In order for the importation of casein to be restricted, it would be necessary for the Department of Agriculture to take such action pursuant to section 22 of the Agricultural Adjustment Act, as amended.

If we can be of further assistance to you on this matter, please do not hesitate to call on us.

Sincerely,

Robert P. Schaffer
Assistant Commissioner
(Commercial Operations)

Enclosure

G S P	Item	Stat. Suf-fix	Articles	Units of Quantity	Rates of Duty		
					1	LDDC	2
			Subpart D. - Other Milk Products				
			Subpart D headnote: 1. For purposes of item 118.45 the term "milk protein concentrate" means any complete milk protein (casein plus albumin) concentrate that is 40 percent or more protein by weight.				
			Whey:				
	118.00	00	Fluid	Gal.	1.5¢ per gal.		2.05¢ per gal.
	118.05	00	Dried 1/	Lb.	1.5¢ per lb.		3¢ per lb.
	118.10	00	Yoghurt and other fermented milk	Lb.	20% ad val.		20% ad val.
	118.15	00	Chocolate milk drink	Gal.	20% ad val.		20% ad val.
	118.25	00	Ice cream 2/	Gal.	20% ad val.		20% ad val.
	118.30	00	Malted milk; and articles not specially provided for, of milk or cream 3/	Lb.	17.5% ad val.		35% ad val.
	118.35	00	Whey protein concentrate	Lb.	10% ad val.		20% ad val.
	118.40	00	Lactalbumin	Lb.	Free		Free
	118.45	00	Milk protein concentrate	Lb.	0.2¢ per lb.		5.5¢ per lb.
			Subpart E. - Poultry and Other Birds' Eggs				
			Subpart E headnote: 1. The importation of eggs of wild birds is prohibited, except eggs of game birds imported for propagating purposes under regulations prescribed by the Secretary of the Interior, and specimens imported for scientific collections.				
			Bird eggs, and bird-egg yolks and albumen, fresh, frozen, prepared or preserved (whether or not sugar or other material is added):				
			Eggs in the shell:				
A	119.50	00	Poultry (except chicken)	Doz.	3.5¢ per doz.		10¢ per doz.
A	119.55	00	Chicken	Doz.	3.5¢ per doz.		10¢ per doz.
	119.60	00	Other	Doz.	Free		Free
			Whole eggs not in the shell, egg yolks, and egg albumen:				
	119.65	00	Dried	Lb.	27¢ per lb.		27¢ per lb.
	119.70	00	Other	Lb.	5.5¢ per lb.		11¢ per lb.

1/ See item 950.01 in part 3, Appendix to the Tariff Schedules.
2/ See item 950.10 in part 3, Appendix to the Tariff Schedules.
3/ See item 950.11 in part 3, Appendix to the Tariff Schedules.

Note: For explanation of the symbol "A" or "A*" in the column entitled "GSP", see general headnote 3(c).

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1985)

SCHEDULE 4. - CHEMICALS AND RELATED PRODUCTS
Part 13. - Fatty Substances, Camphor, Chars and Carbons, Isotopes, Waxes, and Other Products

G S P	Item	Stat. Suf-fix	Articles	Units of Quantity	Rates of Duty		
					1	LDDC	2
			Subpart B. - Camphor, Chars and Carbons, Isotopes, Waxes, and Other Products				
			Subpart B headnote:				
			1. For the purposes of this part -- (a) the term "crude", in items 493.02, 493.20, and 493.55, has the same meaning as is given for that term in headnote 3(c) of part 3 of this schedule; and (b) the term "advanced" in items 493.04, 493.21, and 493.56, has the same meaning as is given for that term in headnote 3(d) in part 3 of this schedule.				
			Barbasco or cube root, and derris, tuba or tuba root:				
	493.02	00	Crude	Lb.	Free		Free
	493.04	00	Advanced	Lb.	Free		10% ad val.
A	493.10	00	Blackings, powders, liquids, and creams for polishing and cleaning, all the foregoing in immediate containers holding not over 10 pounds each	X	2.6% ad val.	2.5% ad val.	25% ad val.
			Casein and mixtures in chief value thereof (other than a product described in item 118.45):				
	493.12	00	Casein	Lb.	Free		Free
			Other:				
A	493.14	00	Dried milk (described in items 115.45, 115.50, 115.55, and 118.05) which contains not over 5.5 percent by weight of butterfat and which is mixed with other ingredients, including but not limited to sugar, if such mixtures contain over 16 percent milk solids by weight, are capable of being further processed or mixed with similar or other ingredients and are not prepared for marketing to the retail consumers in the identical form and package in which imported 1/	Lb.	1.3¢ per lb.		5.5¢ per lb.
A	493.17	00	Other	Lb.	0.2¢ per lb.		5.5¢ per lb.
A	493.18	00	Cellulose compounds, not specially provided for	Lb.	4.2% ad val.		33.5% ad val.
			Camphor:				
			Natural:				
A	493.20	00	Crude	Lb.	0.4¢ per lb.		1¢ per lb.
	493.21	00	Advanced	Lb.	Free		3¢ per lb.
A	493.22	00	Synthetic	Lb.	2.8% ad val.	2.6% ad val.	11% ad val.

1/ Imports of certain dried milk mixtures are subject to additional import restrictions. See item 950.19 in part 3, Appendix to the Tariff Schedules.

Note: For explanation of the symbol "A" or "A*" in the column entitled "GSP", see general headnote 3(c).

CONGRESSMAN TOBY ROTH (WI08)
TESTIMONY BEFORE THE HOUSE COMMITTEE ON AGRICULTURE,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY
JUNE 5, 1985

MR. CHAIRMAN, I HAVE LONG BEEN INTERESTED IN RESOLVING THE PROBLEM CAUSED BY THE UNCHECKED IMPORTATION OF CASEIN AND OTHER MILK PROTEIN PRODUCTS INTO THE UNITED STATES. ON JANUARY 3 OF THIS YEAR, I INTRODUCED HR 431, THE MILK PROTEIN FAIR TRADE ACT, TO ADDRESS THIS PROBLEM.

I AM PLEASED THAT THE HOUSE DAIRY SUBCOMMITTEE HAS INITIATED HEARINGS ON THIS MATTER. I COMPLIMENT YOUR EFFORTS WHICH WILL DRAW PRAISE FROM MANY AMERICANS, ESPECIALLY THOSE ENGAGED IN DAIRY AND THE AMERICAN TAXPAYER. I URGE THE SUBCOMMITTEE TO REPORT FAVORABLY LEGISLATION TO LIMIT THE IMPORTATION OF THESE PRODUCTS INTO THE UNITED STATES SO THAT IT MIGHT BE INCORPORATED INTO THE 1985 FARM BILL.

UNDER SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT OF 1935, THE PRESIDENT IS EMPOWERED TO PLACE A RESTRICTION ON THE IMPORT OF ANY COMMODITY JUDGED TO INTERFERE WITH DOMESTIC AGRICULTURAL POLICY. IN 1981 THE UNITED STATES DEPARTMENT OF AGRICULTURE STUDIED THE EFFECTS OF CASEIN IMPORTS ON THE DAIRY PRICE SUPPORT PROGRAM AND CONCLUDED THAT MILK PROTEIN PRODUCT IMPORTS DO INTERFERE DIRECTLY WITH THE SUCCESS OF DOMESTIC DAIRY POLICY BY DISPLACING NONFAT DRY MILK PRODUCED IN THE U.S. THE LONG-DEBATED ISSUE OF CASEIN IS A CLASSIC EXAMPLE OF THE SITUATION SECTION 22

WAS AUTHORED TO ADDRESS.

RECENT PRESSURES TO REDUCE FEDERAL EXPENDITURES IN AGRICULTURE UNDERLINE THE IMPORTANCE OF DEALING WITH THE CASEIN ISSUE PROMPTLY. IN 1981 THE USDA ESTIMATED THAT SOME $300 MILLION WAS ADDED TO THE COST OF OPERATION OF THE DAIRY PRICE SUPPORT PROGRAM BY IMPORTS OF CASEIN AND THE SUBSEQUENT DISPLACEMENT OF U.S.-PRODUCED NONFAT DRY MILK. IN 1983 THESE IMPORTS ADDED $329 MILLION IN COSTS TO THE OPERATION OF THE DAIRY PROGRAM. IN FACT, IN THE LAST FIVE MONTHS OF 1984, CASEIN IMPORTS EXCEEDED GOVERNMENT PURCHASES OF NONFAT DRY MILK.

WHAT WE ARE EXPERIENCING IS A SITUATION IN WHICH THE AMERICAN TAXPAYER IS PAYING TWICE FOR THE SAME COMMODITY. A 1983 USDA REPORT CONCLUDES THAT ALL THE MAJOR CASEIN PRODUCING AND EXPORTING COUNTRIES HAVE VARIOUS SUBSIDIZATION SCHEMES FOR CASEIN. WE ARE MAKING IT PROFITABLE FOR OTHER NATIONS TO SUBSIDIZE CASEIN PRODUCTION BY ALLOWING THEM TO EXPORT SO GENEROUSLY TO THE UNITED STATES. SIMULTANEOUSLY, WE ARE BUYING OUR OWN NONFAT DRY MILK WHICH HAS BEEN DISPLACED BY CASEIN. THIS IS A WASTE OF TAXPAYER DOLLARS WE CANNOT TOLERATE.

MY LEGISLATION, WHICH HAS BEEN REFERRED TO THE WAYS AND MEANS SUBCOMMITTEE ON TRADE, RESPONDS TO THE WIDESPREAD DEMAND THAT

CASEIN IMPORTS BE CURTAILED. IT HAS BIPARTISAN SUPPORT FROM ALL AROUND THE COUNTRY, DAIRY AND NON-DAIRY DISTRICTS ALIKE. IT HAS BEEN ENDORSED BY THE NATIONAL FARMERS ORGANIZATION, THE NATIONAL MILK PRODUCERS FEDERATION, AND DAIRYMEN, INC.

THIS BILL, WHICH HAS THE SAME PRACTICAL IMPACT AS THAT INTRODUCED BY MY COLLEAGUE, MR. ROSE, WOULD IMPOSE A 50 PERCENT QUOTA, USING AS A BASE PERIOD THE AVERAGE YEARLY IMPORTS OF CASEIN TO THE UNITED STATES DURING THE PERIOD OF JANUARY 1, 1979 TO DECEMBER 31, 1983. UNDER SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT, THE PRESIDENT WOULD HAVE AUTHORITY TO REVIEW AND CHANGE THE QUOTA AS CONDITIONS DICTATE.

TODAY THE EVIDENCE IS CLEAR THAT CASEIN IMPORTS INTERFERE DIRECTLY WITH THE DAIRY PRICE SUPPORT PROGRAM. IN DECEMBER 1981, ALMOST FOUR YEARS AGO, I WENT BEFORE THE INTERNATIONAL TRADE COMMISSION TO WARN THAT THE FAILURE TO PROVIDE RELIEF FROM CASEIN IMPORTS WOULD SIGNIFICANTLY CONTRIBUTE TO OUR DAIRY INVENTORIES. IT SHOULD BE NO SURPRISE THAT IN 1985 WE HAVE BULGING WAREHOUSES. AND CASEIN IMPORTS CONTINUE TO SKYROCKET.

MILK PROTEIN PRODUCTS HAVE SHIFTED IN USE FROM INDUSTRIAL APPLICATION TO FOOD AND FEED PRODUCTS. THE FOREIGN AGRICULTURAL SERVICE OF THE USDA STATED IN A LETTER TO ME THAT FOOD AND FOOD

USE ACCOUNTS FOR THREE-FOURTHS OF TOTAL CASEIN UTILIZATION. THE U.S. INTERNATIONAL TRADE COMMISSION REPORTED IN 1982 THAT THE LARGEST AND FASTEST GROWING MARKET FOR CASEIN IS IMITATION CHEESE.

A 50 PERCENT LIMITATION ON CASEIN IMPORTS WOULD NOT RESTRICT AVAILABILITY FOR USES FOR WHICH THERE IS NO AVAILABLE SUBSTITUTE OR FOR WHICH DOMESTIC MILK OR MILK PRODUCTS WOULD NOT BE USED. BOTH MY OWN AND CONGRESSMAN ROSE'S LEGISLATION WOULD CALL ON THE SECRETARY OF AGRICULTURE TO SET UP A LICENSING SYSTEM TO ASSURE THE IMPORT OF CASEIN WHERE NO SUBSTITUTES ARE AVAILABLE.

CLEARLY, IMPORTS OF MILK PROTEIN PRODUCTS ARE ADDING TO AN ALREADY DIFFICULT SITUATION FOR THE DOMESTIC DAIRY INDUSTRY. THIS IS AN ISSUE OF FAIR TREATMENT FOR AMERICA'S DAIRY FARMER. WE HAVE AT OUR COMMAND LEGISLATION TO ENSURE THAT OUR DAIRY PRICE SUPPORT PROGRAM CAN OPERATE IN THE BEST INTERESTS OF THE TAXPAYER, THE FARMER AND THE CONSUMER. IT IS INCUMBENT UPON THE CONGRESS TO ACT TO CURTAIL THE COUNTERPRODUCTIVE IMPORT OF CASEIN AND I URGE MY COLLEAGUES TO SUPPORT LEGISLATION TO ACCOMPLISH THIS GOAL.

STATEMENT OF THE

HONORABLE DAVID O'B. MARTIN

26TH DISTRICT, NEW YORK

BEFORE THE
LIVESTOCK, DAIRY AND POULTRY SUBCOMMITTEE
HOUSE COMMITTEE ON AGRICULTURE

JUNE 5, 1985

Mr. Chairman, I want to thank you and the Members of the Subcommittee for the opportunity to testify before you today in support of legislation limiting the importation of milk protein products into the United States. This is an issue of paramount importance and I appreciate the Subcommittee's interest in seeking a solution to the problem.

I represent one of the largest dairy-producing areas in New York State. During the past four and one-half years I have represented the 26th District, Congress has been struggling to address the problem of surplus dairy products. As we now turn to drafting the 1985 Farm Bill, I believe the situation we face with regard to the importation of milk protein must be an integral part of the debate. The impact of imported casein on our dairy farmers and on its use in competition with American dairy products must be addressed.

According to projections I have seen, the Commodity Credit Corporation this year will purchase the milk equivalent of about 8.5 billion pounds of surplus from American dairy producers. Yet, we will soon be importing the skim milk equivalent of about six billion pounds of casein, a milk protein used extensively in the production of imitation dairy products, particularly imitation cheese.

In other words, we are, astoundingly enough, importing the equivalent of virtually two-thirds of our surplus non-fat dairy products. I am sure you would agree that this hardly makes sense when the Federal government is spending so much money to purchase and store the surplus of our domestic industry.

It is unconscionable that, in an already difficult time for our dairy farmers, we continue to import a product which is heavily subsidized by exporting countries and contributes to the cost of the dairy price support program, while at the same time it is displacing U.S.-produced dairy products.

From the perspective of New York State, casein imports have a devastating effect. About 30% of the State's milk supply (35% of the non-fat milk solids) is used for cheese manufacture. Nationally, we are first in cream cheese and cream cottage cheese production, second in Italian cheeses and fourth in cheddar. This foreign-manufactured and foreign-subsidized product competes with New York milk for use on frozen pizzas, in convenience foods, whipped toppings and coffee lighteners, to mention a few of its uses.

Currently there are no restrictions upon the importation of either casein or milk protein concentrate. Additionally, casein is imported duty-free, while milk protein concentrate is dutiable at 0.2 cents per pound.

By limiting the amount of milk protein products that we import, we would enable real cheese, the production of which is one of the most prominent uses of milk, to compete equitably with imitation cheese. And we would see a sharp increase in the use of domestically-produced milk in the national marketplace.

Mr. Chairman, I would urge that the Subcommittee favorably consider legislation to restrict the importation of milk protein products. Such action would be deeply appreciated by every dairy farmer, livestock producer and grain farmer in the United States, and by every American taxpayer.

Thank you.

TESTIMONY OF ALBERT WANOUS
BEFORE THE HOUSE LIVESTOCK, DAIRY AND POULTRY SUBCOMMITTEE
JUNE 5, 1985

My name is Albert Wanous. I operate a family dairy farm near Pine City, Minnesota. I market my milk through Land O'Lakes, Inc. and serve on the board of directors of that organization. I appreciate the opportunity to appear before the subcommittee to present the views of Land O'Lakes, Inc. with respect to imports of casein and other milk protein products.

First I would like to read the resolution adopted by the membership of our organization at the 1985 annual meeting reagarding imports of milk protein.

> "Import restrictions are required to be placed on any product that materially interferes with agricultural programs or any commodity subject to government programs. In recent years 87% of the imports of casein and caseinates and other milk proteins have been used in food and animal feed items. We urge the restriction of imports of milk products which evade Section 22 Quotas and materially interefere with the dairy support program.
>
> We strongly disagree with the International Trade Commission report which indicates that casein/caseinate imports do not materially affect usage of domestic nonfat dry milk and cheese or interfere with the dairy price support program.
>
> We strongly endorse the Milk Protein Fair Trade Act of 1983 (H.R. 431) which was introduced into Congress by Rep. Toby Roth, R-Wis. This bill would limit casein imports to one-half of the yearly average imports during the period from January 1, 1979 through December 31, 1983. Such a limit would lower the government cost of the dairy price support program and reduce

the surplus of domestic dairy products.

The feasibility of developing a U.S. casein manufacturing industry should be explored and all effects examined before implementing any program to encourage such an industry.

Inasmuch as the Trade and Tariff Act of 1984 establishes a line-item tariff on milk protein concentrates, as distinguished from casein, imports of such concentrates should be monitored and, if found excessive, a quota should be established."

Next I would like to offer a few comments with respect to impact of imported casein and other milk proteins on the domestic dairy economy. I believe that casein does, in fact, interfere with the operation of the Dairy Price Support Program. It does so in two ways. First, casein often replaces nonfat dry milk in many dairy blends that are used in the food manufacturing industry, particularly by the bakery and meat industries. More important, however, is the use of casein in the manufacturing of artificial cheeses. Cheese is one of the three products purchased by CCC under the Dairy Price Support Program. As cheap casein makes possible the manufacture and marketing of artificial cheese, it, in effect, displaces domestically produced cheese in the commercial market. As a result, greater amounts of domestically produced cheese must be sold through CCC to clear the market. Another impact of casein and milk protein imports is that they interfere with the development of the market for a variety of whey protein concentrate, which are relatively new domestic dairy products. These products result from the adoption of modern ultra-filtration technology in the cheese and whey industry. We believe that whey protein concentrate has great market potential as we learn more about their attributes and functionality. However, the availability of cheap imported milk proteins tends to depress prices and retard market development for domestic whey protein concentrates.

Another point I want to make regards the potential for developing a domestic casein industry. Some people have made the argument that it makes more sense to subsidize the production of casein in the United States than it does to purchase nonfat dry milk under the price support program. On the surface this proposal seems to have considerable merit. However, we feel a great deal of additional study is needed before it is pursued further. I do not think it would be difficult for the american dairy industry to engage in casein production. However, the amount of subsidy required would probably be more than the inherent subsidy in the present nonfat dry milk purchase program. This is because USDA is able to get significant value recovery from nonfat dry milk. Also, the lower the price of casein, the greater the subsidy required to support a domestic industry. Casein prices are likely to fall if a growing domestic supply adds to the already abundant imported supply.

Of more concern to us is what would be done with the casein that would be produced domestically. The markets that domestically produced casein would find would be the same as those for imported casein. It would be used as a substitute for nonfat dry milk in food and feed ingredients, and more importantly, would be used to produce artificial cheese. Thus, federal funds would be used to subsidize a industry that produces artificial cheese that is marketed in direct competition with natural cheese made from milk.

A further problem with domestic casein production would be whey disposal. The by-product of casein production is an acid whey which is very difficult to process or dispose of. No one has thought very deeply about the impact of a large new supply of acid whey on dairy markets.

Finally, I would like to remind the committee that the problem of milk protein imports is not limited to casein. There are three additional products that require consideration. These include lactoalbumen, whey protein concentrate and milk protein concentrate, sometimes referred to as Total Milk Protein (TMP). Each of these is a relatively new dairy product in the world dairy market. The problem they present for the U.S. is that their ready availability at low or subsidized prices will retard the development of similar products within the United States. We recommend that relatively low import quotas be placed on each of these products in order to prevent the same sort of domestic market interference as developed with casein.

Thank you for the opportunity to present my views and those of Land O'Lakes with respect to imports of milk protein products.

PC/cms

2260V

FARMERS UNION
Milk Marketing Cooperative

STATEMENT OF

FARMERS UNION MILK MARKETING COOPERATIVE
3225 East Washington Avenue
Madison, Wisconsin 53704

Presented by

Stewart G. Huber
President

Before the

House Committee on Agriculture
Subcommittee on Livestock, Dairy and Poultry

1300 Longworth House Office Building
Washington, D.C. 20515

June 5, 1985

Mr. Chairman and members of the committee, I am Stewart G. Huber, president of the Farmers Union Milk Marketing Cooperative. We represent over 7,600 family dairy producers in the seven Midwest states of Wisconsin, Minnesota, Iowa, Illinois, Michigan, Nebraska and South Dakota. I operate a dairy farm in Waupaca County, Wisconsin with members of my family. We thank you for calling this hearing on casein, one of the most critical and emotional issues facing our industry. Farmers Union Milk Marketing Cooperative has been calling for strict limits on casein almost since the day we were organized back in the early 1970s.

We support H.R. 1629, the Rose bill, which would restrict annual imports of casein and other milk proteins to half the average of 1979 to 1983, an amount equal to about 76.6 million pounds per year. This is consistent with Section 22 of the 1935 Agricultural Act, which allows a 50 percent quota or a 50 percent ad valorem tariff whenever imports of any farm product materially interfere with the operation of the domestic price support program.

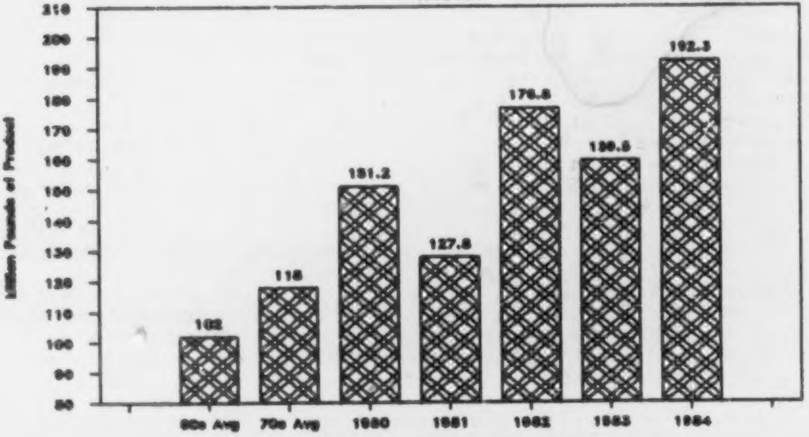
As we will document, heavily subsidized casein imports do materially interfere with the price support program by displacing large amounts of domestic natural cheese and nonfat dry milk from the commercial market and substantially increasing the cost of the dairy price support program. The sharp increase in casein imports in recent years has coincided with rising domestic milk production, precipitating a political and economic crisis which threatens even the most efficient producers. Dairy farmers have suffered major price support cuts and have financed the first-ever milk diversion program as a result of the surplus situation aggravated by casein imports.

It's appropriate for Congress to order the enforcement of Section 22 at this critical time. The Reagan Administration, like its predecessors, has refused to act on this politically sensitive issue despite the considerable harm to dairy producers and taxpayers which has resulted. The problem is compounded by the 1979 International Trade Commission report and subsequent USDA studies which failed to perceive the true impact of casein on our markets.

The primary reason for the continuing flood of casein, of course, is the heavy subsidy allowing it to undercut the price of domestic nonfat dry milk. A recent study by Truman Graf, a University of Wisconsin dairy economist, notes that at the April 1985 price of 94.5 cents per pound, casein costs only 37 percent of the $2.54 per pound cost of domestic nonfat dry milk solids of comparable protein content used in natural cheese. Exporting nations are subsidizing casein at the current rate of 95 cents per pound, according to Graf, either directly or indirectly.

Despite its official classification as an industrial product, 86 percent of casein has been used in food, animal feed and other nonindustrial uses in recent years, a dramatic reversal from 1955, when only 1 percent was used for nonindustrial purposes. Today, casein is an essential ingredient in imitation cheeses, whipped toppings, coffee whiteners and many other imitation products. Casein is used primarily as a protein source, and can be used interchangeably with nonfat dry milk in many applications, a fact which has allowed casein to displace domestic powder on such a wide scale.

Artificially low prices and the absence of a quota have caused casein imports to increase dramatically in recent years, to 192.3 million pounds in 1984. Imports averaged 161.2 million pounds for the period 1980-84, far above the annual averages of 102 million pounds during the decade of the 1960s and 118 million pounds during the 1970s. The following graph illustrates the growth of casein imports in recent years. Not surprisingly, the ITC's 1979 report to the House Ways and Means Committee underestimated casein imports for 1980-84 at less than 150 million pounds per year. This is consistent with their refusal to recognize the true nature of the casein threat.



U.S. CASEIN IMPORTS

1960-84

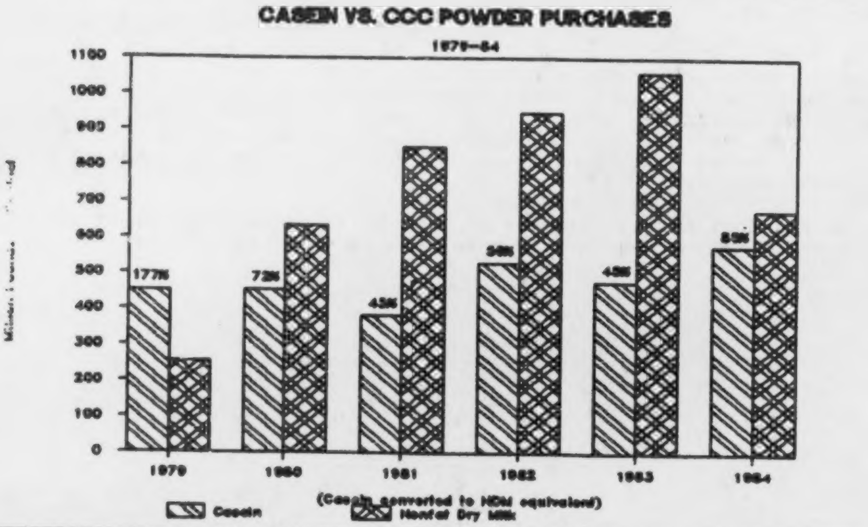
(Source: Commerce Dept. data)

Unfortunately, we do not know how casein imports have been trending so far this year because USDA has not published monthly Commerce Department reports since December 1984. This lack of current data and the absence of any regular reporting on imitation cheese production and other uses of casein forces us to conclude that the Administration is purposely trying to hide the issue to avoid enforcement of Section 22.

To understand the real significance of casein in the current dairy situation, we have to examine its impact on the two major product categories most affected--nonfat dry milk and cheese. Casein displaces vast amounts of nonfat dry milk from the market, which must be purchased and stored by the Commodity Credit Corporation at considerable expense. USDA found that these displacements increased 1980 CCC milk powder purchases by 333 million pounds at a cost of $300 million. That's equal to 48 percent of all CCC powder purchases that year.

Comparing casein imports to powder purchases on a protein basis, where one pound of casein substitutes for three pounds of nonfat dry milk, however, shows an even greater impact on government purchases.

On that basis, casein equaled 85 percent of nonfat dry milk purchases in 1984. In 1979, imports were nearly double CCC purchases at 177 percent. The graph below compares the protein equivalent of casein with powder purchases over the past six years.



Sharply increased production of casein-based imitation cheese has substantially increased natural cheese purchases under the price support program. According to Graf, this displacement increased CCC natural cheese purchases by 201 million pounds in 1981 at cost of $280 million, accounting for 35.7 percent of price support cheese purchases that year. Unfortunately, no figures are available on imitation cheese production since that time. Assuming that the production of imitation cheese has increased at the same rate as casein imports since 1981, however, we can project the production of imitation cheese and the displacement of natural cheese last year at 302.4 million pounds, a whopping 67.6 percent of CCC annual cheese purchases. This amount, equal to 3.1 billion pounds milk equivalent, would have reduced CCC purchases to 5.5 billion pounds in 1984.

Casein is a prime example of an international trade policy which is neither free nor fair. The Administration proposes that U.S. dairy producers compete without assistance in a world market depressed by the systematic dumping of the European Community, New Zealand and Australia. The U.S. market absorbs one-third of world casein production, an amount disproportionate to our share of the total world dairy market, and major dairy exporting nations gear their production primarily for our market.

New Zealand, which exports 60 percent of its casein here, opened a research center in Petaluma, California in 1980 to develop new formulations allowing them to further penetrate the U.S. market. It lobbied hard to influence ITC findings in the 1979 investigation. **Hoard's Dairyman** reports that New Zealand, surprisingly, uses almost no casein in its own domestic food industry while it continues to expect U.S. dairymen to tolerate the erosion of their own market for natural dairy products.

If efforts to enforce Section 22 fail, we should consider a longer-term solution of producing casein here in the U.S. from domestic milk. This will allow surplus milk to be diverted from government storage to a market now taken by subsidized imports, benefitting producers and taxpayers alike. It also should satisfy those who insist that no suitable domestic substitute for casein currently exists.

Again, Mr. Chairman and members of the committee, we appreciate this opportunity to express our views on this serious issue. Thank you.

Statement of

ASSOCIATED MILK PRODUCERS, INC.

Before the
Subcommittee on Livestock, Dairy and Poultry
of the
Committee on Agriculture

U.S. HOUSE OF REPRESENTATIVES

With respect to

H.R. 1629, legislation to
limit importation of casein and other
products.

June 5, 1985

Irvin J. Elkin, President
Route 4, Box 120
Amery, Wisconsin 54001
715/268-2747
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512/340-9100

I am Irvin J. Elkin, a dairy farmer from Amery, Wisconsin. I am also president of Associated Milk Producers, Inc., a dairy cooperative marketing association headquartered in San Antonio, Texas. The membership of AMPI consists of more than 31,000 dairy farm families in 20 states. Through their cooperative, these dairy farmers seek to improve the conditions in the markets for their product.

We appreciate the concern of the Subcommittee in convening this hearing to consider legislation addressing a problem that has long confronted the dairy industry. The expansion of imports of casein and casein mixtures, coupled with the shift in use of these products has resulted in lost markets for dairy farmers. In addition, it has placed an increasing burden on the Dairy Price Support Program as milk solids displaced by these imports have been diverted to other products, primarily nonfat dry milk, and have been acquired by the Commodity Credit Corporation.

Congress enacted Section 22 of the Agricultural Adjustment Act for the express purpose of preventing interference with the operation of price support or similar programs by imported products. Despite many requests by the dairy industry and Members of Congress for effective use of that authority, no action has been taken. We are faced today with a situation where Congress has been requested to enact legislation effectively ending the dairy price support program, an action which would devastate dairy farm income, while increasing volumes of milk are displaced by these imports.

Dairy farmers recognize the need to make basic policy price support policy changes. In fact, they have worked hard to develop realistic and workable policy recommendations that have unified support within the industry. This policy will provide the basis for maintaining the highly efficient and productive American dairy industry. While these actions are being made, there is an urgent need to curtail the market loss and increased government costs resulting from these imports.

WHAT IS CASEIN?

Casein is the principal protein in milk and is found only in milk. Nutritionally, it is one of the most complete proteins known, containing all the amino acids essential to human nutrition. Cow's milk contains about three percent protein, roughly one-third of the milk solids-not-fat content of milk.

Casein is produced from fluid skim milk, usually by precipitation or coagulation with an acid. After precipitation of the casein, the whey is drained off and the casein is washed, dried and ground.

Until the 1960's, casein uses were confined almost entirely to industrial applications such as adhesives, paper coatings, paints, and plastics. Studies by the U. S. Department of Agriculture and the U. S. International Trade Commission show a major use shift in recent years to the point that today industrial uses account for less than 15 percent of U. S. casein consumption while food and animal feed uses make up the balance.

This shifting use pattern, demonstrated in Table 1, has resulted in the substitution of casein for domestic milk solids in a wide variety of uses. Uses reported to the International Trade Commission in response to a Commission survey in 1981 included the production of imitation cheese products, coffee whiteners, bakery products, medical and pharmaceutical applications, frozen desserts and whipped toppings, breakfast foods and diet foods in addition to animal feeds and industrial uses.

The 1981 Commission study determined that the production of imitation cheeses was the largest single use of the product in 1980 as well as the fastest growing area of use. More than 31 percent of the 1980 useage was for this purpose. This was up from less than 7 percent in 1978.

THE LEGISLATION

H. R. 1629 would establish a limit on the import of casein and other milk protein products at 50 percent of the average level of the past five years(1980 through 1984). This would allow entry of 80,857,000 pounds of casein and mixtures of casein annually (Table 8). It would further require use of a licensing system that affords preferential access first for those uses for which there are no available substitutes, second for those uses for which substitutes other than domestic milk solids would be used and, finally any remaining quantities not licensed under the first two categories could be entered for uses for which domestic milk solids do, in fact, provide a substitute.

The legislation is designed to establish these limitations within the framework of Section 22 of the Agricultural Adjustment Act. As mentioned, the intent of Section 22 is to assure the effective operation of domestic price support or similar programs of the Department of Agriculture.

THE PROBLEM

In reviewing the appropriateness of the application of Section 22 in this case, the first question to be answered must be whether or not there has been interference or there is the possibility of interference with operation of the Dairy Price Support Program. I believe that USDA studies have already answered that question with an emphatic yes!

The study, U.S. CASEIN AND LACTALBUMIN IMPORTS: AN ECONOMIC AND POLICY PERSPECTIVE, USDA, ESCS, National Economics Division, ESS Staff Report Number AGESS 810521, concentrated on analyzing the effect of casein imports on the Dairy Price Support Program in 1980. The report states: "Actually, if no casein had been imported in 1980, commercial disappearance of domestic skim milk solids would have increased by the equivalent of 333 million pounds of nonfat dry milk. Thus government purchases of nonfat dry milk would have been 333 million pounds lower, saving about $300 million in Commodity Credit Corporation (CCC) outlays."

Since that time, imports have expanded considerably. The increased cost to the price support program today would be substantially greater as demonstrated in tables 2 and 3.

Despite this evidence no action has been taken. Several reasons for failure to act have been given. It would be appropriate to examine these to determine their validity.

1) Section 22 limits any quota to 50 percent of the level imported during a representative period. This prevents a total ban on imports and even with the limitation, available stocks would most likely be devoted to those uses where milk solids are substitutable, thereby limiting the effect of any reduction.

2) Limiting imports would increase consumer costs.

3) A limitation on imports would deny consumers a wide range of products where casein is an irreplaceable ingredient.

4) A limitation on imports would deny consumers products where casein has a necessary function for medicinal or nutritional reasons.

5) A limitation on imports would violate U. S. trade agreements and be contrary to the free trade policy of the nation.

6) The problem really isn't one of casein imports. Rather, the difficulty lies in the dairy price support program that has made the United States dairy farmer noncompetitive with his counterpart in other nations.

7) No interference with the Dairy Price Support Program can be found because casein is not a substitute for nonfat dry milk.

AN IMPORT LIMITATION WOULD NOT BE EFFECTIVE

Standing by itself, such a limitation would still provide the possible loophole that would allow those users presently using imported casein instead of domestic milk solids to continue the practice. The proposed legislation overcomes that difficulty by requiring use of a preferential licensing system.

The 50 percent limitation would establish an annual quota of 80,857,000 pounds (Table 8).

In its 1981 study, USDA developed a product use category concept which related the use of imported casein on the basis of availability of substitutes. The table presenting that information in the USDA report is reproduced as Table 4.

Making a simple extension of the percentage use in each category in 1981 to import levels last year gives an opportunity to determine the effectiveness of the proposed licensing system in channeling the available product into uses where no substitute is available or where products other than milk solids would replace casein.

As shown in table 5, the proposed limitation would allow sufficient product to be imported to meet all needs where substitutes for casein are not available and 95 percent of the needs where soy or other proteins can be substituted for casein. This understates the capability of meeting the needs in the latter group. Casein imports in 1984 increased almost 21 percent from 1983. It is probable that a portion of that increase represented inventory building. To that extent the estimated use levels in 1984 are overstated. Further, these use levels are based on relative proportion of use in 1981. As pointed out earlier, use of casein in the production of imitation cheese has been increasing. It is unrealistic to expect that its relative share of useage has continued at 1981 levels. While current data on use levels are not available, if is fair to say there would be sufficient product available to meet all needs for uses in Groups A and C.

Employing this concept would effectively concentrate the relief available in those areas where domestically produced skim milk or nonfat dry milk are, in fact, substitutes for casein. Using the estimated use levels for 1984 presented in Table 5, 111,460,000 pounds of casein that would have been excluded is equivalent to 4.0 billion pounds of skim milk. If the only alternative use for of this skim milk is the production of nonfat dry milk and its sale to the Commodity Credit Corporation under the Dairy Price Support Program, the proposed limitation could have reduced price support program costs by $321 million in 1984.

LIMITING CASEIN IMPORTS WILL INCREASE CONSUMER COSTS

There is the potential for consumer costs to be increased when the needed limitations are imposed. The exact extent of such increase is difficult to determine. In its 1981 study, USDA placed the estimated increase at $115 million with a limitation at 50 percent of then current imports. This assumed an increase in price ior the available casein to its equivalent value in the form of nonfat dry milk.

Use of the proposed licensing system would reduce or eliminate the price impact for those uses provided for under preferential treatment. In uses where skim milk would likely be used as a replacement for casein the nonfat dry milk-casein price comparison again overstates the difference as there are processing costs that would be avoided.

In many uses of casein, it is not a major ingredient and its price would have limited impact in determining the consumer price of the product.

A major factor to be considered here, however, is the potential savings to taxpayers in terms of reduced Commodity Credit Corporation costs. This potential reduction far outweighs any possible consumer cost increase, providing a substantial net gain.

CASEIN IS AN ESSENTIAL INGREDIENT IN MANY PRODUCTS DUE TO ITS UNIQUE FUNCTIONAL CHARACTERISTICS

Casein does have a number of functional characteristics which make it an essential ingredient in some products. This has been recognized in the classification scheme developed by USDA. These uses would continue to be supplied.

In those uses where domestic skim milk or nonfat dry milk are substitutes, the "unique" functional attribute of casein is most commonly price. Imitation cheese, the largest single use of casein is also produced using skim milk--the product in this case is designated "filled cheese".

A major category of casein products used as food and feed ingredients are mixtures of casein and whey. In this case, the attempt is largely to simulate nonfat dry milk through the use of lower cost components.

CASEIN IS AN ESSENTIAL INGREDIENT IN MANY MEDICINAL, PHARMACEUTICAL AND DIET RELATED PRODUCTS

There is no desire or need to deny availability of a product where its use is essential. This would be assured by the licensing procedure the legislation proposes.

LIMITATIONS ON CASEIN WOULD BE COUNTER TO U.S. TRADE AGREEMENTS AND COUNTER TO U.S. TRADE POLICY

Actions relating to Section 22 import restraints are in the realm of domestic policy. They are aimed at assuring effective operation of domestic agricultural programs. The only basis for a Section 22 action is interference with or potential interference with the effective operation of a domestic price support or similar program. Congress has recognized the necessity to clearly draw the line between domestic policy and trade policy by amending the statute to require that no trade agreement will be applied in a manner inconsistent with the requirements of Section 22.

One of the major agricultural policy issues facing the Congress for the past five years has been that of the Dairy Price Support Program. Dairy farmers themselves have recognized the need for policy changes to bring down government costs and to restore the needed supply-demand balance in the industry. Actions to address these issues have resulted in cutting dairy farm income and farmers being assessed for the purpose of paying a portion of the cost of the price support program and to finance programs to expand their markets.

While these developments have taken place, there has been a continued expansion of casein imports. Farmers find it impossible to reconcile a policy, which on one hand effectively reduces their income and, on the other, provides an expanding market for the production of producers in other nations.

THE REAL PROBLEM LIES IN THE FACT THAT THE DAIRY PRICE SUPPORT PROGRAM HAS MADE THE U. S. DAIRY FARMER NONCOMPETITIVE

This line of reasoning holds that the price assurance provided farmers under the price support program has effectively increased prices for milk and dairy products to the point that the U. S. dairy industry cannot compete in the world market. It is because of this that import limitations currently in place on dairy products are maintained and this is why an extension of these limitations to cover milk protein products is sought.

The U. S. has not been a consistent factor in the international dairy market. Prices in that market are at such low levels that participation without substantial export subsidy assistance or authority for U. S. farmers to operate export pools is not possible. As a result, commercial export sales have been largely limited to specialty products.

A recent issue (May 10, 1985) of USDA's Dairy Market News reported the following world prices for dairy products, FOB Northern European and selected major world ports.

Butter	$.43 - .48	per lb.
Cheddar cheese	.50 - .57	per lb.
Nonfat dry milk	.27 - .31	per lb.

Using the yield factors and processing margins applied by USDA in calculating the product purchase prices under the price support program, it is possible to roughly establish a farm milk price on the basis of these product prices. Product prices in this range would provide farm milk prices ranging from $2.90 per hundredweight to $4.51. This provides no allowance for shipping the product to the port.

Prices in the world market have no relation to the value of the milk in the product. They are determined by the level of export subsidy nations or groups of nations are willing to provide to move their products into other markets. In the European Community, for example, the support price for milk was set last spring at $10.58 per hundredweight. Even that price is illusory if one attempts to compare it with farm prices in the United States.

The EC support price for milk in 1980 was equal to $14.64 per hundredweight, substantially above the $13.10 support level set in the U. S. late that year. This means that the price support for milk in the EC has been substantially reduced during this period. Wrong. The fact is that the EC price support level has been increased by 23 percent while the U. S. price support level has been reduced by 8 percent. The difference lies in the value of the dollar which has escalated substantially in the interim. While not directly a factor in this issue, this should be kept in mind in any discussion of U. S. agricultural trade and our competitive position in the world. The American farmer has not priced himself out of the market, the failure to match the trade policies of other nations have done this and, in recent years, the escalation of the value of the dollar has vastly increased the problem.

New Zealand, the principal source of casein imports into the United States, maintains no direct export subsidy program on dairy products. It does, however, provide sanction to a producer run export program that allows the pooling of export sales proceeds to producers on a national basis. In addition, certain production subsidies assist producers in reducing milk production costs.

NONFAT DRY MILK IS NOT A SUBSTITUTE FOR CASEIN, THEREFORE THERE CAN BE NO INTERFERENCE WITH THE DAIRY PRICE SUPPORT PROGRAM

This and similar arguements have been made in the past to cloud the basic issue under consideration. As pointed out earlier, there are some uses for casein for which nonfat dry milk could be used as a direct replacement. For the most part, however, the displacement is of milk solids-not-fat. Lacking an alternative market, the skim milk containing these solids is processed into nonfat dry milk and sold to the Commodity Credit Corporation under the price support program.

The basic issue at hand is whether there is interference with the dairy price support program as the result of these imports. There not a a price support program for nonfat dry milk, butter and cheddar cheese. The Dairy Price Support Program is a price support program for milk. The CCC purchase program for nonfat dry milk, butter and cheese is the mechanism through which the price support for milk is provided.

The link between Section 22 import restraints and the price support program is, as stated, the interference with the program's effective operation. There is no requirement that the product on which import restraints are established be purchased under the price support program. There is no requirement that the product be part of the dairy product mix produced in the United States.

AVAILABILITY AND SOURCES OF CASEIN

During its 1981 investigation, the International Trade Commission was told by representatives of casein exporting countries that the supply of casein in the world market had stabilized and that current import levels would be difficult to maintain in the future. The Commission accepted this as fact despite representations from the American dairy industry that this was not the case.

The record since 1981 is clear. As shown in Table 6, imports of casein and casein mixtures in 1984 were more than 50 percent higher than in 1981. One witness on behalf of the American dairy industry in 1981 suggested to the ITC that imports were purposely being held down at that time to lessen the prospect of the Commission recommending the needed action on import restraints. In retrospect, that observation has a much more solid base than it might have appeared to possess at the time.

World production of casein in 1984 was estimated at 527 million pounds. New Zealand is the largest single producer, accounting for 26 percent of the total, however as a group, the nations of the European Community exceeded the production of New Zealand, producing 46 percent of the world supply. Poland with 21 percent of the production in 1984 continues to develop as a major producer. Argentina which was once a major producer and exporter of casein produced less than one percent of the estimated world supply last year.

While there was once a substantial casein industry in the United States, there has been no commercial production since the 1960's. The unlimited availability of cut rate imports is a major factor in the elimination of its production. While no casein is produced commercially, there are substantial operations in this country which process casein into blends used as ingredients in a wide range of food and feed products. There are also conversion operations which convert imported casein into the water soluble caseinate form for food and feed uses.

Casein is produced primarily for the export market. USDA reports that in 1984, 61 percent of the world's casein production was exported from the country of production (this excludes intra-EC trade). This contrasts with butter trade totalling 11 percent of production, cheese at less than 10 percent and nonfat dry milk at just under 22 percent. The nonfat dry milk trade figure is not representative of commercial exports as it includes food aid shipments. For example, the United States is shown to have exported almost 590 million pounds of nonfat dry milk in 1984. over one-fourth of the total world shipments. Virtually all of this was food aid.

Casein appears to be a product most used where it is not produced. According to USDA, there was no consumption of casein in New Zealand, the leading producer and exporter of casein. On the other hand, the United States whose casein production has been eliminated by import competition, accounted for almost half of the world consumption last year.

ANIMAL HEALTH CONCERNS

While not directly related to the impact of these imports on the Dairy Price Support Program, the potential hazard to the health of the nation's livestock herd is of great concern. Research by USDA and others has demonstrated that the Foot and Mouth Disease virus survives pasteurization and processing in a number of animal products, including casein. As a result, a regulatory system has been put in place which is intended to prevent the use of these products in animal feeds.

The last outbreak of Foot and Mouth Disease in the United States occurred in 1929. Only the most stringent efforts have prevented a new incident. The prospect of reintroducing the disease through imports of infected animals or animal products remains one of the major concerns of animal health authorities. The potential devastation of animal agriculture by introduction of this disease requires the immediate elimination of imports of animals and animal products from countries not determined to be free from Foot and Mouth Disease.

THERE IS NO RELATIONSHIP BETWEEN CASEIN IMPORTS AND COMMODITY CREDIT CORPORATION PURCHASES OF NONFAT DRY MILK

For some unexplained reason, there has been a continued reluctance on the part of many to accept the fact that imports of these products does, in fact, interfere with the Dairy Price Suppport Program by increasing CCC purchases of dairy products, primarily nonfat dry milk.

It is generally argued that casein is not a substitute for nonfat dry milk and, therefore, cannot be viewed as displacing that product in commercial markets. As mentioned earlier, there are uses where the two are substitutable. For the most part, however, it is skim milk that is displaced and then converted into nonfat dry milk.

Nonfat dry milk is generally regarded as a coproduct of butter. In fact, that is exactly the view taken by USDA in administering the Dairy Price Support Program. Table 7, presents the annual net CCC purchases of butter since the price support program was initiated. By converting those purchases to a milk equivalent basis, it is possible to determine the purchases of nonfat dry milk that would have taken place if the only nonfat dry milk removals had been the product associated with butter production. By comparing actual nonfat dry milk purchases by CCC with the butter-related volumes, we find some interesting comparisons.

During the post-Korean War period of the 1950's and to the mid 1960's there were purchases of substantial quantities in excess of what could be accounted for by butter purchases. That period witnessed one of the most profound changes in agricultural marketing in history as dairy farmers converted from the marketing of farm separated cream to marketing of bulk fluid milk. The result was that milk solids-not-fat that once stayed on the farm were now going to market. In 1950, 32 percent of the solids-not-fat produced stayed on the farm. By 1960, this had declined to 13 percent. Further conversion reduced the level to 7.5 percent in 1965 and five percent in 1968. Today, the marketing of farm separated cream as a commercial farm enterprise has disappeared.

As this conversion proceeded, market outlets for the newly available milk solids were lacking. The skim milk was processed into nonfat dry milk and sold to the CCC under the price support program.

By the late 1960's, however, this was changing. One notes that the disparity between butter and nonfat dry milk purchases under the price support program began to decline sharply in 1966 and continued through 1973. Nonfat dry milk purchases by CCC were relatively lower than butter removals in 1971, 1972, and 1973.

Something happened then to reverse that trend. The 1974 and 1975 situation reflects the unfortunate setting where imports of nonfat dry milk were expanded in an ill-timed and considered effort to hold down inflation by reducing prices for milk and dairy products. At the same time, however, use of casein in food and feed products began to grow rapidly. From 1976 to 1984, there has been a steadily increasing volume of nonfat dry milk purchases by CCC that cannot be accounted for unless and until one considers the coincident expansion of casein use in food and feed.

Efforts have and will be made to demonstrate that the level of casein imports have no statistical relationship to CCC purchases. Simply looking at total CCC removals, however, is a mistake. Such a look masks the supply-demand conditions within the U. S. dairy industry. Setting aside the purchases associated with butter removals, however, lifts that mask and allows a clearer analysis.

Simply put, the American dairy industry had solved the marketing problem associated with expanded availability of milk solids-not-fat 12 years ago. By leaving the door open to unneeded and excessive imports of milk solids-not-fat in the form of casein, we have allowed it to reemerge as one that is costly to the dairy farmer in the form of lost markets and to the U. S. taxpayer in the form of increased CCC outlays.

The discussion of impact on the price support program is concentrated primarily on nonfat dry milk as it is possible to make at least rough estimates of actual impacts. Unquestionably, increased purchases of cheese and butter have taken place as imitation dairy products have displaced natural cheeses and milk fat in such uses as coffee creamers.

THE UNIQUE FUNCTIONAL CHARACTERISTICS OF CASEIN

As stated, casein is the most perfect protein known. It is an excellent product. From a nutrition standpoint, this value can be, and is, delivered to the consumer daily in the full range of dairy products consumed. It is present in fluid milk. It is the protein constituent of natural cheese. It is cottage cheese.

The thing that makes casein so unique in many uses is purely, simply price. It has been routinely available in this market at prices substantially below market prices for milk solids in fluid skim milk or in other forms. It is available at these prices because of the nature of the international market for dairy products which determines price on the basis of export subsidies and because casein is the residual product of dairy processing industries.

As the 1981 ITC report on its casein investigation stated, casein is treated as a residual product. That means it is only produced after the skim milk needed for all other uses has been allocated. Technically, this makes casein the product of surplus milk production. Applying this to the product imported into the United States, we have a situation where this country has become the dumping ground for other nations surplus production.

The fact that price appears to be the most unique functional characteristic of casein is demonstrated by what happened in 1974 and 1975. As shown in Chart 2, the quoted price of Australian edible grade casein increased sharply during this period. Coincidently, the import of casein into the U. S. dropped by more than 50 percent. When the price went up, the essential need for casein suddenly declined precipitously.

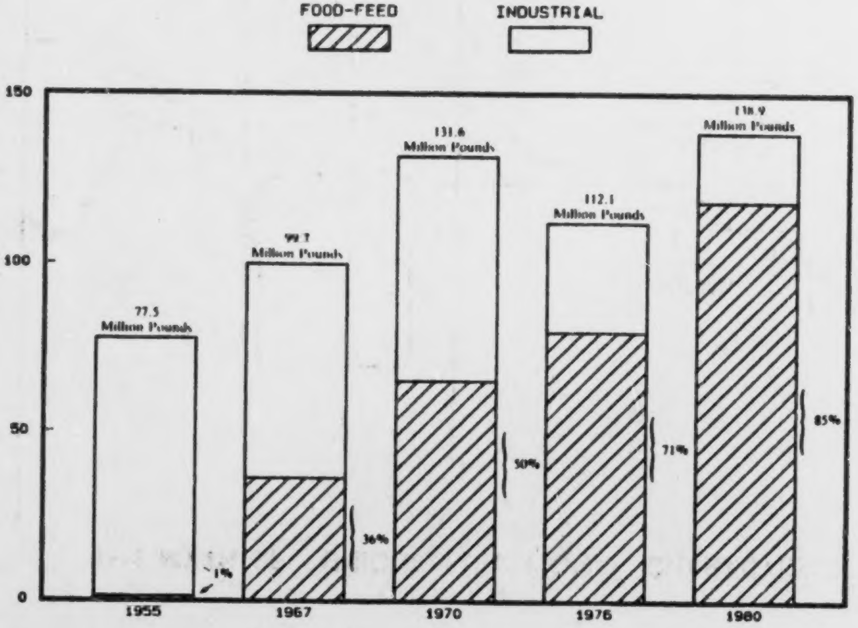
(Attachments follow:)

CHART 1.

WHILE INDUSTRIAL USES OF CASEIN HAVE DECLINED, CASEIN IMPORTS USED IN FOOD AND FEED MANUFACTURING HAVE BEEN INCREASING.

CASEIN AND MIXTURES OF CASEIN, UTILIZATION

UNITED STATES - SELECTED YEARS

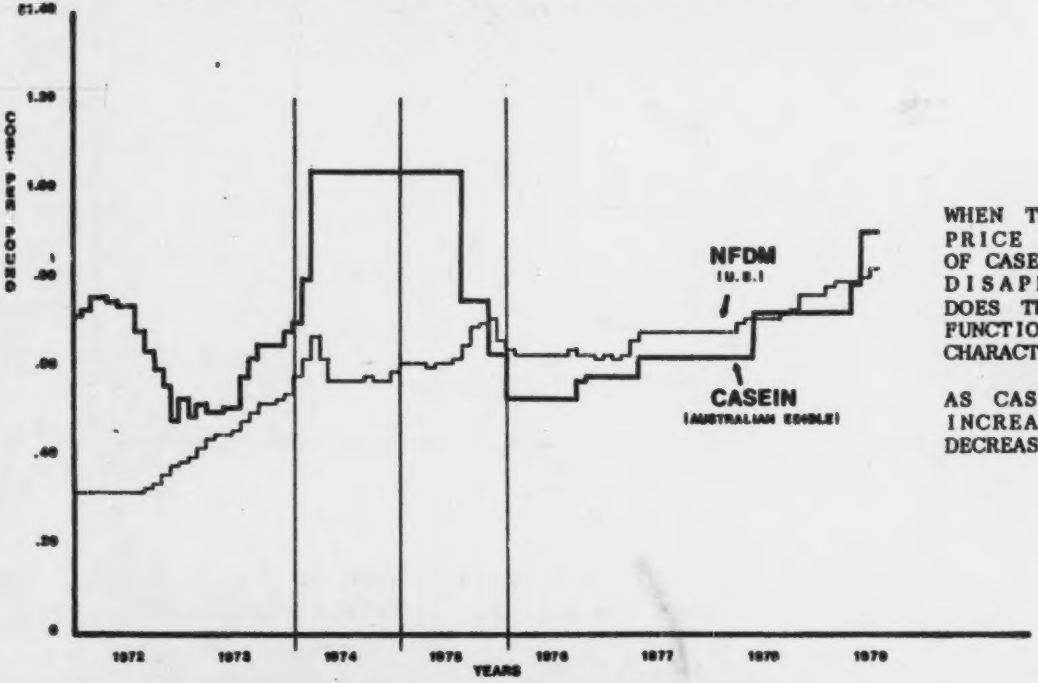


SOURCE: USDA, USITC

TOTAL POUNDS IMPORTED AND PERCENTAGE USED IN FOOD AND FEED MANUFACTURING

CHART 2.

THE MYTH OF "UNIQUE FUNCTIONAL CHARACTERISTICS"



COMPARISON OF NFDM and CASEIN PRICE vs TIME

WHEN THE UNFAIR PRICE ADVANTAGE OF CASEIN DISAPPEARS SO DOES THE "UNIQUE FUNCTIONAL CHARACTERISTICS."

AS CASEIN PRICE INCREASED USAGE DECREASED.

TABLE 1.

CASEIN AND MIXTURES OF CASEIN, UTILIZATION, UNITED STATES, SELECTED YEARS

	1955 2/		1967 2/		1970 2/		1976 3/		1978 4/		1979 4/		1980 4/	
	MIL #	%	MIL #	%	MIL #	%	MIL #	%	MIL #	%	MIL #	%	MIL #	%
FOOD USES	1.0	1.3	36.1	36.0	60-70	50.0	40.4	36.0	72.3	55.9	87.8	59.3	95.7	68.9
ANIMAL FEED	1/		1/				39.2	35.0	30.4	23.5	32.1	21.7	22.7	16.3
INDUSTRIAL	76.5	98.7	63.6	64.0	60-70	50.0	32.5	29.0	26.6	20.6	28.2	19.0	20.5	14.8
TOTAL	77.5	100	99.7	100	131.6	100	112.1	100	129.3	100	148.1	100	138.9	100

1/ Food and Feed use not reported seperately
2/ USDA, Dairy Situation, DS-334, March 1971
3/ USDA, Staff Report on Casein, April 20, 1977
4/ USITC, Casein, Mixtures in Chief Value of Casein, and Lactalbumin, Publications 1217, January 1982

TABLE 2.

ESTIMATED ADDED COSTS OF THE DAIRY PRICE SUPPORT PROGRAM DUE TO CASEIN IMPORTS FOR FOOD AND FEED USES
1970 - 1984

YEAR	CASEIN FOR FOOD/FEED	NFDM EQUIVALENT	AVERAGE CCC PRICE	INCREASED CCC COST
	-MIL LBS-	-MIL LBS-	$ PER LB	-MIL $-
1984	163.47	516.57	$0.9100	$470.1
1983	135.60	428.50	$0.9375	$401.7
1982	150.24	474.76	$0.9400	$446.3
1981	108.65	343.33	$0.9416	$323.3
1980	129.34	408.71	$0.8925	$364.8
1979	121.85	385.05	$0.7894	$304.0
1978	108.17	341.82	$0.7094	$242.5
1977	110.46	349.05	$0.6660	$232.5
1976	85.31	269.58	$0.6240	$168.2
1975	44.21	139.70	$0.6105	$ 85.3
1974	84.68	267.59	$0.5280	$141.3
1973	76.70	242.37	$0.3759	$ 91.1
1972	65.35	206.51	$0.3170	$ 65.5
1971	59.30	187.39	$0.3056	$ 57.3
1970	67.65	213.77	$0.2624	$ 56.1
	TOTAL INCREASED COST, 1970 - 84			$3,449.8

Based on USDA and USITC casein use estimates.

Use levels 1981-1984 are extensions of USITC estimate for 1980.

TABLE 3.

POTENTIAL REDUCTION IN CCC COSTS FROM PROPOSED IMPORT LIMITATION, 1970 - 84

YEAR	REDUCED CASEIN IMPORTS	NFDM EQUIVALENT	AVERAGE CCC PRICE	POTENTIAL SAVINGS
	-MIL LBS-	-MIL LBS-	$ PER LB	-MIL $-
1984	111.46	352.20	$0.9100	$ 320.5
1983	78.67	248.60	$0.9375	$ 233.1
1982	95.90	303.03	$0.9400	$ 284.8
1981	46.97	148.41	$0.9416	$ 139.7
1980	71.30	225.31	$0.8925	$ 201.1
1979	69.97	221.11	$0.7894	$ 174.5
1978	56.28	177.84	$0.7094	$ 126.2
1977	63.39	200.31	$0.6660	$ 133.4
1976	31.28	98.86	$0.6240	$ 61.7
1975	(22.41)	(70.82)	$0.6105	$ (43.2)
1974	32.03	101.22	$0.5280	$ 53.4
1973	31.97	101.03	$0.3759	$ 38.0
1972	24.54	77.56	$0.3170	$ 24.6
1971	25.08	79.26	$0.3056	$ 24.2
1970	54.43	172.00	$0.2624	$ 45.1
TOTAL POTENTIAL SAVINGS, 1970 - 84				$1,817.2

TABLE 4.

CASEIN USAGE BY PRODUCT GROUP, 1980

	Millions of lbs. of casein
Group A: Soy or other protein can be Substituted for Casein	
Industrial	16.6
Bakery and breakfast foods (90%)	10.3
Pet food	5.3
Animal food (20%)	4.1
Group A Total	36.3
Group B: NFDM or Skim Milk can be Substituted for Casein	
Imitation cheese	41.9
Animal feed (80%)	16.5
Coffee whitener (28%)	3.4
Desserts (28%)	1.9
Other foods	3.8
Group B Total	67.5
Group C: Substitutes for Casein not Available	
Coffee whitener (72%)	8.9
Medical and Specialty	9.4
Desserts (72%)	4.9
Bakery and breakfast foods (10%)	1.1
Group C Total	24.3

Source: U.S. Casein and Lactalbumin Imports:
An Economic and Policy Perspective
USDA, ESCS, ESS Staff Report Number AGESS810521

TABLE 5.

ESTIMATED CASEIN USE BY PRODUCT GROUP, 1984

	% of total, 1981	Estd. 1984 Use -mil lbs-
Group A: Soy or other Protein can be substituted for Casein		
Industrial	13.9	26.7
Bakery & Breakfast (90%)	5.4	10.4
Pet Food	5.5	10.8
Animal Feed (20%)	2.1	4.0
	26.9	51.7
Group B: NFDM or Skim milk can be substituted for Casein		
Imitation Cheese	35.7	68.7
Animal Feed (80%)	8.5	16.3
Coffee Whitener (28%)	2.5	4.8
Desserts (28%)	1.1	2.1
Other Foods	8.7	16.7
	56.5	108.7
Group C: Substitutes for Casein not available		
Coffee Whitener (72%)	6.5	12.5
Medical & Specialty	6.6	12.7
Desserts (72%)	2.9	5.6
Bakery & Breakfast Foods (10%)	0.6	1.2
	16.6	31.9

TABLE 6.

IMPORTS OF CASEIN, MIXTURES OF CASEIN

INTO U.S., BY COUNTRY, 1976-1984
(Million Pounds)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
New Zealand	55,558	96,327	84,263	92,095	76,763	65,413	85,190	68,378	94,505
Ireland	3,320	4,299	9,188	14,833	23,977	19,877	40,161	35,933	39,120
Australia	33,397	23,127	23,167	21,716	17,924	18,360	16,468	18,807	15,294
France	176	97	55	1,961	8,877	5,282	14,923	12,011	13,840
Netherlands	1,100	621	1,517	2,547	2,526	1,728	4,575	6,045	7,850
United Kingdom	269	1,669	2,997	2,751	5,575	2,608	4,213	4,085	5,595
Poland	2,822	4,301	4,307	2,053	3,506	2,772	1,578	4,361	4,908
Denmark	787	-0-	77	1,171	4,523	3,838	2,143	2,458	4,794
Norway	386	890	2,016	1,703	1,970	2,934	2,414	2,112	2,231
Argentina	10,128	6,976	3,008	1,462	2,182	1,929	2,097	1,230	106
Other	4,198	5,938	6,539	8,535	4,336	3,082	2,990	4,107	4,069
TOTAL	112,141	144,245	137,134	150,827	152,159	127,823	176,752	159,527	192,312

TABLE 7.

RELATION BETWEEN CCC PURCHASES OF BUTTER AND NONFAT DRY MILK AND CASEIN IMPORTS FOR FOOD AND FEED USE

YEAR	CCC BUTTER PURCHASES -MIL LBS-	M.E. FAT BASIS NET BUTTER PURCHASES -MIL LBS-	NFDM FROM M.E. BUTTER PURCHASES -MIL LBS-	ACTUAL NFDM PURCHASES -MIL LBS-	NFDM IN EXCESS OF M.E. OF BUTTER -MIL LBS-	CASEIN FOR FOOD/FEED USE -MIL LBS-	NFDM EQUIVALENT OF CASEIN -MIL LBS-
1984	202.2	4,513.10	366.92	677.1	310.18	163.47	516.57
1983	413.2	9,222.62	749.80	1,060.5	310.70	135.60	428.50
1982	382.0	8,526.24	693.18	948.1	254.92	150.24	474.76
1981	351.5	7,845.48	637.84	851.3	213.46	108.65	343.33
1980	257.0	5,736.24	466.36	634.3	167.94	129.34	408.71
1979	81.6	1,821.31	148.07	255.3	107.23	121.85	385.05
1978	112.0	2,499.84	203.24	285.0	81.76	108.17	341.82
1977	221.8	4,950.58	402.48	461.7	59.22	110.46	349.05
1976	39.4	879.41	71.50	157.1	85.60	85.31	269.58
1975	63.4	1,415.09	115.05	394.5	279.45	44.21	139.70
1974	32.7	729.86	59.34	265.0	205.66	84.68	267.59
1973	97.7	2,180.66	177.29	36.8	(140.49)	76.70	242.37
1972	233.7	5,216.18	424.08	345.0	(79.08)	65.35	206.51
1971	292.2	6,521.90	530.23	456.2	(74.03)	59.30	187.39
1970	246.4	5,499.65	447.12	451.6	4.48	67.65	213.77
1969	187.9	4,193.93	340.97	407.2	66.23	52.20	164.95
1968	194.8	4,347.94	353.49	557.8	204.31	46.04	145.49
1967	265.1	5,917.03	481.05	688.9	207.85	35.89	113.41
1966	22.5	502.20	40.83	363.3	322.47	35.82	113.19
1965	186.0	4,151.52	337.52	878.2	540.68	27.82	87.91
1964	223.1	4,979.59	404.84	671.9	267.06	29.73	93.95
1963	307.3	6,858.94	557.63	1,018.0	460.37	21.54	68.07
1962	402.9	8,992.73	731.11	1,377.7	646.59	20.65	65.25
1961	329.5	7,354.44	597.92	1,085.9	487.98	19.00	60.04
1960	145.4	3,245.33	263.85	852.8	588.95		
1959	123.7	2,760.98	224.47	830.3	605.83		
1958	183.7	4,100.18	333.34	886.0	552.66		
1957	172.8	3,856.90	313.57	825.3	511.73		
1956	164.4	3,669.41	298.32	724.3	425.98		
1955	162.1	3,618.07	294.15	535.1	240.95		
1954	305.1	6,809.83	553.64	644.4	90.76		
1953	355.3	7,930.30	644.73	597.1	(47.63)		
1952	16.1	359.35	29.22	42.3	13.08		
1951	(26.6)	(593.71)	(48.27)	35.3	83.57		
1950	14.7	328.10	26.67	327.2	300.53		
1949	113.7	2,537.78	206.32	325.5	119.18		

TABLE 8.

U.S. IMPORTS OF CASEIN AND MIXTURES OF CASEIN BY YEAR, 1980 - 1984

YEAR	VOLUME
	-1,000 pounds-
1980	152,159
1981	127,823
1982	176,752
1983	159,527
1984	192,312
5 year average	161,714
50% of 5 year average	80,857

TABLE 9.

CASEIN PRODUCTION, SPECIFIED COUNTRIES
(1,000 METRIC TONS)

	1976-80 AVERAGE	1981	1982	1983	1984 PRELIM	1985 FORECAST
SOUTH AMERICA						
ARGENTINA	4	3	2	2	2	2
EUROPEAN COMMUNITY						
FRANCE	25	30	40	39	43	43
GERMANY, FED. REP.	15	16	17	21	20	20
IRELAND	11	15	20	24	23	24
ITALY	0	1	1	1	2	2
NETHERLANDS	14	19	19	20	18	20
UNITED KINGDOM	1	3	4	6	5	5
SUBTOTAL	66	84	101	111	111	114
EASTERN EUROPE						
POLAND	37	26	36	44	50	40
OCEANIA						
AUSTRALIA	17	14	8	11	13	9
NEW ZEALAND	59	60	47	65	63	65
SUBTOTAL	76	74	55	76	76	74
TOTAL	183	167	194	233	239	230

SOURCE: COUNSELOR AND ATTACHE REPORTS, OFFICIAL STATISTICS, AND RESULTS OF OFFICE RESEARCH.

NOTE: GREECE JOINED THE EUROPEAN COMMUNITY IN 1981. AUSTRALIAN YEAR ENDS JUNE 30 AND NEW ZEALAND YEAR MAY 31.

COMMODITY AND MARKETING PROGRAMS
MARCH, 1985

DAIRY, LIVESTOCK AND POULTRY DIVISION
FOREIGN AGRICULTURAL SERVICE

COMMENTS ON CERTAIN FINDINGS OF THE INTERNATIONAL TRADE COMMISSION IN ITS 1981 INVESTIGATION OF CASEIN IMPORTS

"OUR INVESTIGATION SHOWS THAT IMPORTED CASEIN PROBABLY DISPLACES SOME DOMESTIC DAIRY PRODUCTS SUPPORTED BY THE DEPARTMENT OF AGRICULTURE'S MILK PROGRAM. HOWEVER, WE FIND THAT INTERFERENCE WITH THE PROGRAM HAS NOT RISEN TO THE 'MATERIAL' LEVEL, NOR IS THERE ANY INDICATION IT WILL DO SO IN THE IMMEDIATE FUTURE...

IN ADDITION, WE DO NOT FIND THAT IMPORTS RENDER OR TEND TO RENDER THE MILK PROGRAM INEFFECTIVE. THE PRINCIPAL OBJECTIVES OF THE PROGRAM ARE BEING MET, ALTHOUGH ADMITTEDLY AT CONSIDERABLE COST TO THE GOVERNMENT...

THEREFORE, WE BELIEVE THAT A FINDING OF MATERIAL INTERFERENCE WITH THE PRICE SUPPORT PROGRAM IS INAPPROPRIATE."

Several factors stand out: First, the Dairy Price Support Program is a price support program for milk, not the specific products the Commodity Credit Corporation purchases in the implementation of the program. The ITC confused this issue throughout its investigation.

Second, the finding that "...the principal objectives of the program are being met..." is equivalent to saying there can be no interference so long as the CCC stands ready to buy all quantities of product displaced. This is a direct denial of the requirements of Section 22.

In this instance, the USDA presented and supported its finding that casein imports in 1980 had added $300 million to the cost of the Dairy Price Support Program. While the ITC disagreed with the conversion factors used by USDA in achieving that estimate, ITC's own conversion would still yield added costs in 1980 of $225 million. This is the most specific and probably the greatest measurement of interference ever presented in support of application of Section 22.

The finding by the majority of the Commission in this case is equivalent to making the statutory provisions applicable (Section 22) null and void.

"...IMITATION CHEESE, THE LARGEST AND FASTEST GROWING MARKET FOR CASEIN, ACCOUNTED FOR AN ESTIMATED 31 PERCENT OF CASEIN AND MIXTURES IN CHIEF VALUE OF CASEIN USED IN 1980 COMPARED WITH 12 PERCENT IN 1978, AND 35 PERCENT DURING JANUARY - AUGUST 1981. ...IMITATION AMERICAN-TYPE CHEESES FREQUENTLY HAVE NATURAL OR PROCESS CHEESES ADDED AS INGREDIENTS ALONG WITH CASEIN AND VEGETABLE OIL."

The point of this discussion was acceptance of casein importers arguements that casein has actually served to expand markets for domestic cheese by providing a use for certain quantities blended into imitation products. In 1980, the estimated 168 million pounds of casein-based ersatz cheese blended in some six million pounds of natural cheese, less than 3.6 percent. In other words, 96.4 percent or 162 million pounds of domestically produced natural cheese was displaced by these ersatz products.

THE COMMISSION DEVOTED SUBSTANTIAL DISCUSSION TO THE STATUS OF CASEIN PRODUCTION IN EXPORTING COUNTRIES, PRIMARILY FOR THE PURPOSE OF DEMONSTRATING THAT THEN CURRENT LEVELS OF EXPORT TO THE UNITED STATES WERE THE MAXIMUM POSSIBLE AND THAT ANY EXPANSION WAS QUESTIONABLE. CASEIN EXPORTER REPRESENTATIVES TESTIFIED AT THE ITC HEARING TO THE EFFECT THAT EXPANSION BEYOND THE 1981 LEVEL WAS DOUBTFUL.

Quantity of Casein Exported to the U.S.
-million pounds-

Country	1981	1984	1984 As A Percent of 1981
New Zealand	65.4	94.5	144
Ireland	19.9	39.1	196
Australia	18.4	15.3	83
France	5.3	13.8	260
Netherlands	1.7	7.9	465
United Kingdom	2.6	5.6	215
Poland	2.8	4.9	175
Others	11.8	11.2	95
Totals	127.8	192.3	150

As the above table demonstrates, there has been no stabilizing or decline in the ability of exporters to ship casein to the United States.

Casein . . .

A $3.5 billion U.S. taxpayer expense!

... a presentation on H.R. 1629: responsible legislation to close the casein loophole, reduce government costs and maintain responsible U.S. dairy policy.

Associated Milk Producers, Inc.
June 1985

CASEIN......

...Is the principal protein in milk and is found only in milk.

...Is one of the most complete proteins known, containing all of the amino acids essential to human nutrition.

...Is produced much like cottage cheese and is processed in the same type facility. After skim milk is converted to a cottage cheese type curd it is rinsed, dried and ground into a powder.

...Is not water soluble. Most food and feed uses require water solubility. To accomplish this, casein is chemically treated to produce soluble residues referred to as caseinates.

INCREASING IMPORTS USED IN FOOD AND FEED PRODUCTS DISPLACE DOMESTIC MILK SOLIDS AND ADD TO THE COST OF THE DAIRY PRICE SUPPORT PROGRAM

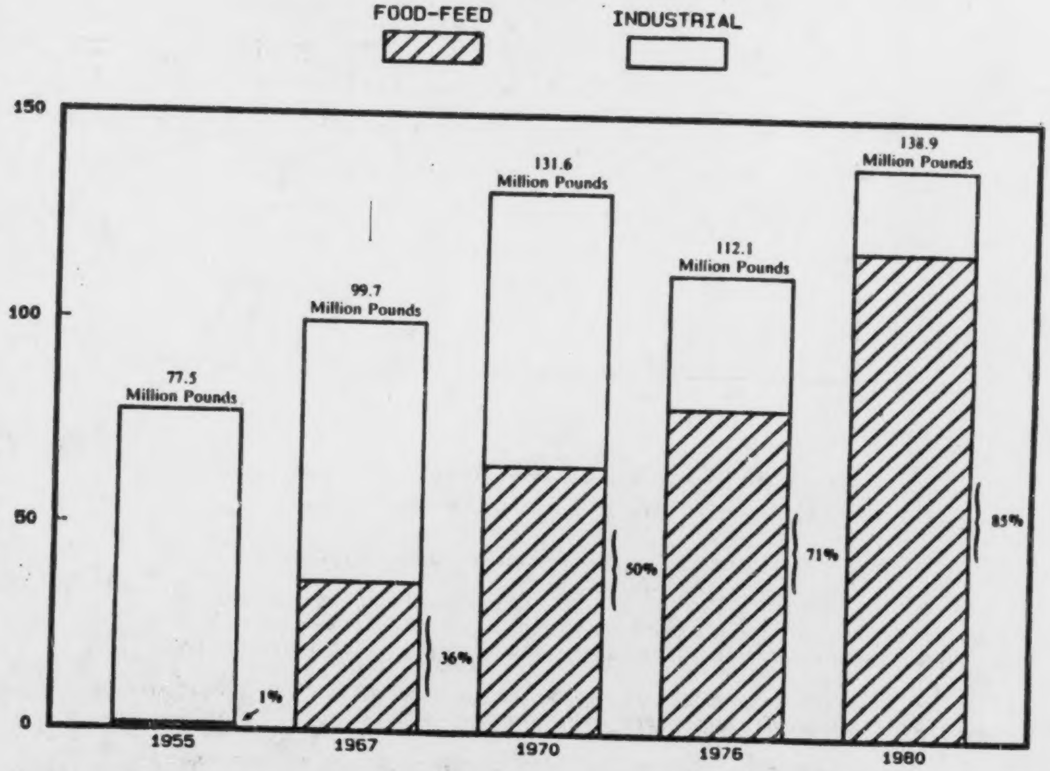
USES OF CASEIN AND MIXTURES OF CASEIN.....

...Historically, casein has been used in such industrial applications as the production of paints, plastics, adhesives, and paper and leather coatings. In the mid-1950's, 99 percent of U. S. use was for these purposes.

...Since then, industrial use has declined. Total use has increased, however, due to increased use of casein and mixtures of casein as an ingredient in food and animal feed.

CASEIN AND MIXTURES OF CASEIN, UTILIZATION

UNITED STATES - SELECTED YEARS



SOURCE: USDA, USITC

IMPORTS OF CASEIN AND MIXTURES OF CASEIN.....

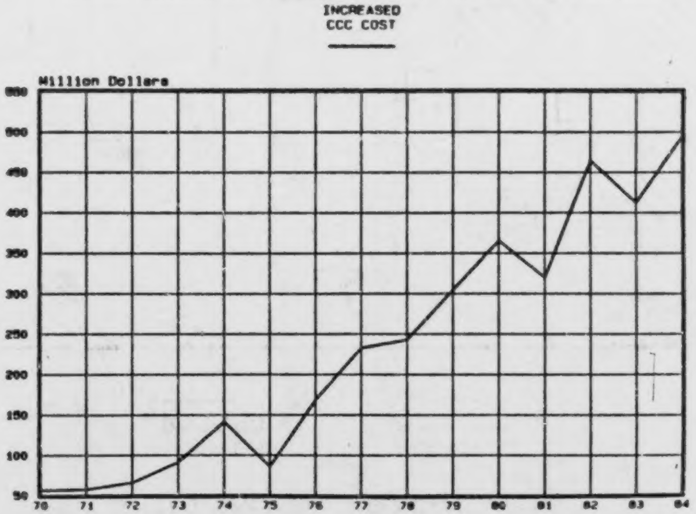
...Displace domestic milk solids, resulting in lost markets for American dairy farmers.

...Increase government costs as the displaced domestic production is purchased by the Commodity Credit Corporation as nonfat dry milk or other dairy products.

...A U. S. Department of Agriculture study determined that government costs under the Dairy Price Support Program would have been $300 million lower in 1980 if there had been no imports of casein and mixtures of casein.

...Since then, casein imports have increased more than 50 percent.

ESTIMATED ADDED COSTS OF THE DAIRY PRICE
SUPPORT PROGRAM DUE TO CASEIN IMPORTS FOR FOOD AND FEED USES



COSTS OF IMPORTS.....

...Since 1970, it is estimated that imports of casein and mixtures of casein for food and feed use have added $3.5 billion to the cost of the Dairy Price Support Program.

...In 1984, the added cost approached $500 million.

CASEIN IMPORTS.....

...Were a record 192.3 million pounds in 1984, equivalent to 6.9 billion pounds of skim milk. That much skim milk would produce 607 million pounds of nonfat dry milk.

AS PART OF DAIRY PRICE SUPPORT POLICY, DAIRY FARMERS

...Have had price support levels reduced $1.00.

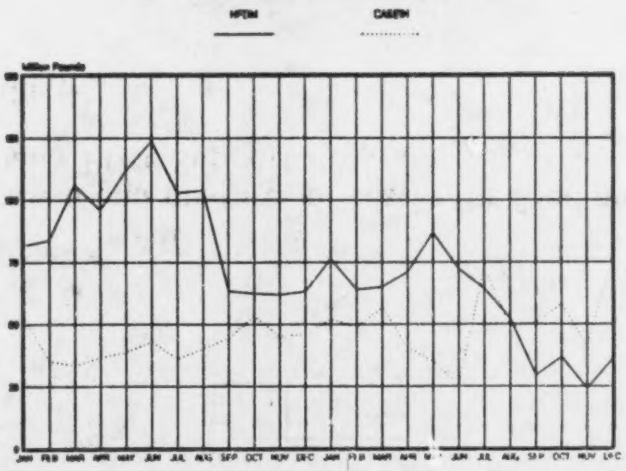
...Face further possible reductions.

...Have been assessed to pay part of program costs.

...Are confronted by administration requests for effective termination of the price support program to reduce costs.

BY THE END OF 1984, MONTHLY IMPORTS OF CASEIN, ON A NONFAT DRY MILK EQUIVALENT BASIS, EXCEEDED CCC PURCHASES OF NONFAT DRY MILK

COMPARISON OF CASEIN IMPORTS WITH GOVERNMENT PURCHASES OF NFDM FOR 1984 AND 1983
(CASEIN CONVERTED TO NFDM EQUIVALENCY)



SOURCE: USDA & NMPF

H.R. 1629.....

...Would limit market loss and increased government cost by limiting imports of these products.

...Limitation would be 50 percent of the average of the past five years--80,857,000 pounds annually.

...Would assure maximum benefit by requiring preferential licensing of imports for uses where no substitutes exist or where substitutes other than milk solids would be used for casein.

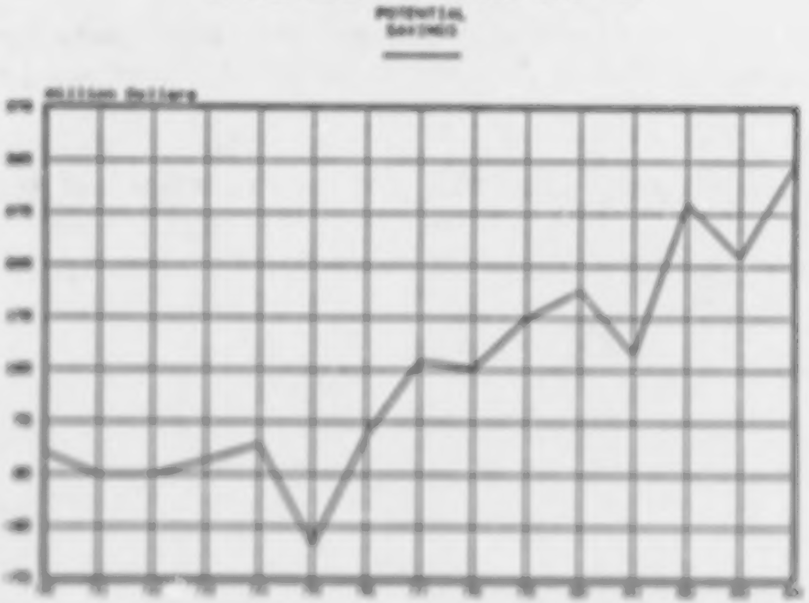
GOVERNMENT SAVINGS FROM REDUCED IMPORTS.....

...The limit set by H. R. 1629 would have reduced price support program costs by $321 million in 1984.

...If such a limitation had been in effect since 1970, Dairy Price Support Program costs would have been reduced by an estimated $1.8 billion.

POTENTIAL REDUCTION IN CCC COSTS FROM

PROPOSED IMPORTS LIMITATION, 1970 - 84



WHY CAN'T WE PRODUCE CASEIN IN THE UNITED STATES?

...We can and we did have a substantial industry at one time. The ready availability of unlimited quantities of subsidized imports effectively eliminated casein production in the U. S.

WOULDN'T IMPORT RESTRICTIONS RAISE CONSUMER COSTS AND DENY AN ESSENTIAL FOOD INGREDIENT?

...The proposed licensing system would provide adequate supplies to meet current and anticipated needs for products where there is no substitute or even where substitutes other than milk solids would be used.

...In many uses, casein is a small portion of total ingredients and reflects a small part of a product's ingredient cost. Major taxpayer savings would more than offset any consumer cost increase.

H. R. 1629 IS.....

...Fair and Equitable

...It halts the continued loss of market for domestic milk solids through growing imports.

...It would prevent further market loss at a time when U.S. farmers are faced wtih reduced prices and having to reduce production.

...It assures supplies for uses where substitutes are not available.

...Economically Sound

...It would reduce government costs $300 million or more per year.

...It would help strengthen farm income.

nmpf

national milk producers federation

1840 Wilson Blvd., Arlington, VA 22201
(703) 243-6111

James C. Barr, CAE
Chief Executive Officer

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The policies of the Federation are determined by its membership on a basis that assures participation from across the nation. The policy positions expressed by NMPF are thus the only nationwide expression of dairy farmers and their cooperatives on national public policy.

Before the

LIVESTOCK, DAIRY AND POULTRY SUBCOMMITTEE

of the

COMMITTEE ON AGRICULTURE

U. S. HOUSE OF REPRESENTATIVES

With respect to

Limiting the Quantity of Casein and Other
Milk Protein Products Which are Imported
into the United States

June 5, 1985

Larry L. Claypool
P. O. Box 1837
800 West Tampa Street
Springfield, MO 65805

Senior Vice President
of Research and Quality Control
Mid-America Dairymen, Inc.

Mr. Chairman, Members of the Committee, my name is Dr. Larry L. Claypool, Senior Vice President of Research and Quality Control for Mid-America Dairymen, Inc. Mid-America Dairymen, Inc. is a cooperative representing more than 10,000 dairymen located in the Midwest. Mid-America Dairymen markets the milk produced by its members by converting milk to a multitude of dairy and food products. One significant marketing program is the custom development and custom manufacturing of dairy ingredients for the food industry.

In the course of accomplishing our developmental objectives, our Product Development Department must maintain a keen awareness of all ingredients, dairy and non-dairy alike. We must formulate and develop products which provide appropriate nutritional benefits, taste and color appeal, satisfactory texture, viscosity, emulsification characteristics, stability, and so forth. Milk solids not fat, present in either skim milk or concentrated skim milk or if water has been removed, nonfat dry milk, provide the developmental technician with an ingredient which has a multitude of nutritional and functional characteristics.

A developmental technician must, however, also be a businessman. Not only must a product be formulated in such a manner that it possesses the appropriate characteristics, but the cost of the end product must be competitive with products formulated from other ingredient sources. This is the subject we are discussing. The developmental technician today has the opportunity to acquire a dairy ingredient which has virtually all of the functional characteristics of nonfat dry milk, basically because it can be derived from nonfat dry milk, but because of subsidies by foreign dairy countries and U.S. import policies, the ingredient is available at approximately one-third the cost of domestically produced milk solids not fat. This ingredient option is imported casein.

Casein is an ingredient option which indeed possesses many desirable characteristics. First, it is a protein which is held as the basic standard for evaluating the nutritional quality of other proteins. In addition to its nutritional attributes, this unique protein has emulsification, stabilization, and water binding characteristics. Attributes which are vital for the formulation of new products which have the appropriate organoleptic characteristics, but are likewise nutritional.

Due to lack of proper explanation or description, it is often not understood that casein is the name for the predominant protein in milk. If the milk solids not fat constituents of milk, or more commonly described as nonfat dry milk, are examined, it will be found that nonfat dry milk contains approximately 30% casein, 7% other proteins, (often referred to as lactalbumins), 55% lactose (milk sugar), and 8% minerals. Casein, representing approximately 30% by weight, is virtually the functional and nutritional backbone of nonfat dry milk.

Researchers have published hundreds of studies which reveal the many characteristics which can be achieved through the modification of milk solids not fat. Included are the studies of the U.S.D.A. which describe the manifestation of heat treatments upon the water binding, stability, and viscosity of milk systems. These same studies have clearly identified casein as the ingredient in nonfat dry milk which is appropriately modified through selected processing. Therefore, from a product developmental viewpoint, casein and milk solids not fat are virtually equivalent and are therefore frequently interchangeable.

The techniques of producing dairy products often include a processing step which removes a selected milk component from the other constituents. This is the basic principle of cheesemaking. Cheesemaking, a vital part of the U.S. dairy marketing program, involves specifically the coagulation of casein in milk by appropriate enzymatic and culturing techniques. In fact, during the course of producing cottage cheese, virtually pure casein with accompanying water is produced.

Casein can be further demonstrated as being the backbone of milk solids not fat. It is casein in milk solids not fat which is appropriately altered by heat treatment to provide water binding characteristics which are beneficial in ice cream and sterilized products.

Being a businessman, the developmental technician must question why milk solids not fat, which is approximately three times higher priced on a protein basis than imported casein, should be used, when in fact, either casein or nonfat dry milk may be used to produce the same product.

A very important question is, therefore, "Can nonfat dry milk replace casein in all formulations?" It is my opinion that nonfat dry milk could be used in a very high percentage of products. It is highly probable that casein has been selected in many formulations because of economics after observing both casein as an individual constituent of milk and casein with associated milk solids providing equal results.

Economics are always the motivating force which causes a new product concept to be initiated, and economics is the final factor that decides if a new product is marketed. A new product must obviously meet a specific need of a consumer, but that product will be marketed only if it provides a fair economic return.

The interchangeable functionality of milk solids not fat and casein accompanied with a tremendous economic motivation is serving as the basis for unfair competition against traditional dairy products, and specifically cheese. Because casein is the constituent in milk solids not fat which is the basic component of cheese, it has been a very easy course of development for those who have desired to market a product which looks like cheese, but is not cheese, and make the product available at one-half (or less) the price of cheese.

Many companies today import casein at approximately one-third the price of casein present in domestically produced nonfat milk solids, and vegetable oil, and water and market the product as a substitute for cheese. This is a very simple technological task, and as we have previously stated, casein is in fact milk protein and the imported source provides the same functionality had the casein been derived from domestically produced milk solids. These products not only infringe upon products and markets which by "common law" ownership belong to the consumer and dairy industry, but the products are being improperly labeled and purport to be something they are not. There is no such thing as a cheese substitute; however, many of these products are being marketed as cheese substitutes.

These marketing programs are in fact utilizing the functional benefits of milk, but are circumventing the protection which Congress intended provided both the consumer and the U.S. dairy industry. In other words, the availability of imported casein is a loophole.

If the importation of casein were discontinued, I am of the opinion that many products which currently utilize casein could in fact be reformulated with nonfat milk solids, even imitation cheese. Presently, imitation cheeses are being marketed which are derived from milk solids not fat and vegetable fat. Obviously, they are more costly when produced from domestic milk solids not fat than products formulated from imported casein, but they are less costly than the cheese which they imitate.

There are some products on the market, particularly nutritional products and products which require a high concentration of the functionalities associated with casein which would probably not be reformulated with milk solids not fat. Domestic casein could be manufactured for such specialized uses.

To the best of my knowledge, dried casein is not commercially produced in the United States today. The U.S. dairy industry could, however, produce casein immediately "if the industry were economically motivated." The U.S. dairy industry will make caseinates available at such time that the return from caseinate production is equivalent to the return for 100 pounds of solids not fat as established by the support program. In fact, a recent report by an investigator at the University of Illinois has illustrated that casein could be manufactured from the stocks of nonfat dry milk presently held in storage by the U.S.D.A.

We would like to briefly acknowledge another impact, in fact a potentially devastating impact, upon literally our nation, the probability of which is increased with the present policies regarding the importation of casein, the potential of imported casein infecting the U.S. livestock industry with the foot-and-mouth disease virus (FMDV).

Foot-and-mouth disease virus is one of the most deadly virus' known to attack cloven footed livestock. This deadly virus, it is estimated, could effectively wipe out 25 percent of the nation's livestock herd if introduced into the United States. Since imports of casein and casein mixtures are steadily increasing from FMDV infected countries, it is essential that such imports be more closely monitored and accurate information be made available both to the source and quantity of these products permitted to enter the United States. Of the countries exporting casein, Brazil, Uruguay, Argentina, Iceland, Finland, Netherlands, Belgium-Luxemburg, France, East Germany, West Germany, Austria, Switzerland, Poland, Soviet Union, Spain, Italy, Bulgaria, Iraq, India and Mozambique are infected with FMDV.

In 1984, the combined total casein imported from this group of FMDV infected countries amounted to approximately 21,644,978 pounds. The product was allowed to come into the United States under supervision of the Animal Plant Health

Inspection Service, USDA. The current system of monitoring and supervising such restricted casein can best be described as a patch-work of various "Gentlemen's Agreements" and permit procedures which have been constructed over the years to meet the demands of importers rather than to protect the United States livestock industry.

The procedures utilized by APHIS permit restricted casein from FMDV infected countries to go through brokers or jobbers to an authorized user from whom the broker must obtain an affidavit indicating that the product was properly handled to avoid contamination or ultimate use in animal feed. Another system allows restricted product to move directly from port of entry under APHIS seal to an approved establishment which is only required to sign an agreement which specifies conditions of handling to avoid contact with animals. A third system provides a blanket permit to approved processing plants abroad which can direct ship restricted product, so-long as the imported casein is accompanied by an official certificate issued by the government of origin which certifies the previously agreed upon production protocols have been followed by the approved foreign plants. Under each of these systems, the main source of compliance is a reliance on the part of APHIS that a "Gentlemen's Agreement" has been honored. There are no specific regulations which have been developed to legally set-forth the procedures which are being followed. There is very little supervision, inspection and enforcement. There is absolutely no reliance on a bonded warehouse control system to closely supervise movements of each lot of product imported from FMDV countries. Only through the so-called "Gentlemen's Agreements" which are signed by the importing brokers or approved establishments are procedures for handling the product specified. The heat treatments, so necessary to kill the virus, are not even specified in these "Gentlemen's Agreements."

Clearly, the United States has been fortunate not to have suffered another outbreak of FMDV. The economic consequences of such an outbreak demand more restrictive control over casein being permitted entry into the United States from FMDV infected countries. We hope this Committee will initiate a thorough Congressional investigation of our loose-net system of handling all imported products which originate from FMDV infected countries.

Mr. Chairman, thank you for the opportunity to present these facts that show casein to be the functional and nutritional backbone of milk solids and thereby results in casein and milk solids not fat being interchangeable in many formulations. In those few rare situations where caseinates are needed, the U.S. dairy industry has the technology and hardware capable of producing caseinates immediately.

national milk producers federation

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Before the

LIVESTOCK, DAIRY AND POULTRY SUBCOMMITTEE
of the
COMMITTEE ON AGRICULTURE
U. S. HOUSE OF REPRESENTATIVES

With respect to

Limiting the Quantity of Casein and Other
Milk Protein Products Which are Imported
into the United States

June 5, 1985

James P. Camerlo
115 South Pikes Peak Ave.
Florence, CO 81226
(303) 784-6980

First Vice President
National Milk Producers Federation

President
Mountain Empire Dairymen's
Association

Mr. Chairman, I am James P. Camerlo, a dairy farmer and First Vice President of National Milk Producers Federation. I am also President of Mountain Empire Dairymen's Association, a dairy marketing cooperative association headquartered near Denver, Colorado. I commend you for conducting this hearing--a true indication of this committee's concern for the dairy farmers of this country.

THE FEDERATION

The National Milk Producers Federation is the national farm commodity organization representing dairy farmers and the dairy cooperative marketing associations they own and operate throughout the nation.

The bulk of the nation's milk supply is marketed through the almost 500 dairy cooperative marketing associations that farmers have developed to represent them in the market. The marketing activities of these associations range from bargaining for price and other conditions of sale of bulk fluid milk to the production of finished dairy products and sale of such products at the retail level. Virtually every dairy product that is produced in any substantial volume in the United States is included in the product mix of the cooperatives represented by the Federation.

The Federation provides the vehicle through which dairy farmers and their cooperative marketing associations formulate policy on national issues which affect their ability to produce and market milk and dairy products. The Federation and its membership seek to establish conditions under which farmers can join together to market their products in stable markets at prices which are reasonable both to producers and consumers. Since its founding in 1916, the Federation has worked with the Congress and the executive agencies to secure the adoption of laws and the implementation of policies to further these basic goals.

The Federation membership is directly concerned with the adverse effect of dairy product imports on American dairy farmers, on their markets and on the instruments of public policy which have been developed as a means of providing market stability and a minimum level of price assurance for the dairy farmer.

One such instrument, the Dairy Price Support Program authorized as part of the Agricultural Act of 1949, as amended (7 U.S.C. 1446) provides the basic price support system for milk. Another such instrument is Section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) which is designed to prevent impairment of the operation of agricultural programs, authorized by the Congress, by excessive and unnecessary imports. These two laws are part of the statutory structure which, in total, constitutes a national food policy. This policy has assured the domestic production of adequate supplies of food to meet the needs of our markets at reasonable prices to consumers.

THE DAIRY PRICE SUPPORT PROGRAM

As part of this complex of legislation which represents a national food policy, the Congress has directed the conduct of a price support program for milk. This program is authorized by Section 201 of the Agricultural Act of 1949.

At the time this legislation was passed in 1949, the Congress stated its basic purpose as simply, "...to assure an adequate supply." Since that time, the legislation has been the subject of periodic review and amendment. This has resulted in a refinement of the purpose and intent of the Dairy Price Support Program. Today, the law directs the Secretary of Agriculture to provide price support for milk at such level as he determines necessary

"...in order to assure an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs."

This purpose is accomplished by establishing a level of price support sufficient to induce farmers to accept the risks involved in devoting the required capital, land, labor and management to the production of milk in volumes sufficient to meet market needs at stable, reasonable prices.

In announcing a specific level of price support for milk, the Secretary of Agriculture simultaneously announces prices at which the Commodity Credit Corporation will purchase the products used as a vehicle for achieving the price support level. The Commodity Credit Corporation stands ready to accept all offers of these products at the stated price.

In developing the product purchase prices, the Secretary of Agriculture adds to the announced support price a factor known as the "processing margin" which is intended to represent the cost to a processing plant of average efficiency to convert a hundred pounds of milk into the product or products in question. The product prices effectively serve as floor under the market since a processor knows that these basic products can be sold to the Commodity Credit Corporation at the announced prices if no other market exists. If the proper factors have been used in determining these prices, the processor will recover his costs and have sufficient funds available to return at least the announced support price to the farmer.

As stated, the law mandating the price support program directs a price support program for all milk. Yet, the program is conducted on the basis of a price support level announced for manufacturing grade milk. At the present time, only about 14 percent of the nation's milk supply is of manufacturing grade. The balance is Grade A milk or milk eligible for fluid use. Does this mean that the intent of the law is being ignored or evaded? It does not.

In the first place, a substantial volume of the milk moving into the production of manufactured dairy products--butter, nonfat dry milk, cheese, etc.--is drawn from the Grade A milk supply. Of the 112.8 billion pounds of Grade A milk sold to plants and dealers in 1984, 43.8 percent was resold for fluid use. The balance went into the production of a variety of other dairy products. Thus, the price support program bears directly on the pricing of a substantial portion of the Grade A milk supply.

The price support level is also the primary determinant of price in the case of milk going into fluid use. Eighty percent of the Grade A milk marketed by farmers in 1984 was sold into markets covered by Federal Milk Marketing Orders. The prices paid farmers for milk under the marketing orders are determined on the basis of a formula included as part of the provisions of each individual order. The basic element of this formula is the Minnesota-Wisconsin Price Series for Manufacturing Grade Milk (the M-W price). The M-W price is developed each month by the U.S. Department of Agriculture from reports of prices paid farmers for manufacturing grade milk by unregulated processing plants throughout Minnesota and Wisconsin. It is a competitive price for milk. However, since it is a price for manufacturing grade milk, the price support level for manufacturing milk does provide a floor for the M-W and, in turn, for the prices farmers receive for Grade A milk used for fluid purposes. Most of the Grade A milk supply not covered by a Federal Milk Marketing Order is marketed under state marketing programs structured in much the same manner.

Thus, the price support program, while being focused on manufacturing grade milk, does effectively provide a basic minimum level of price assurance for all milk produced in the United States.

SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT

Shortly after Congress enacted the basic legislation designed to bolster farm income in 1933, recognition was given the need to prevent unneeded and unnecessary imports from negating these efforts. This issue was addressed in the 1935 enactment of Section 22 of the Agricultural Adjustment Act. The law grants the President authority to impose additional import fees or to establish quantitative limitations on imports of products which interfere with or threaten to interfere with the effective operation of a domestic price support or similar program.

Section 22 is, in effect, the shield behind which these programs operate. In the absence of such a safeguard, efforts to maintain farm income at levels sufficient to assure needed production would be seriously hindered or would have to be reduced unless the government were willing to devote substantially increased funds to such programs. The purpose of the Agricultural Adjustment Act, obviously, is to aid the economy of the domestic producers. (See C. Tennant & Sons of N.Y. vs. Dill (1957) 158 F. Supp. 63 @ 69.) Section 22 is the means for invoking protection to the agricultural commodity program against the threat of imports. (See Best Foods vs. U.S. (1963) 218 F. Supp. 576 @ 582.)

The milk supply and demand situation in the United States since 1980 has been one of substantial surplus. At its peak in marketing year 1983, government purchases of surplus products totaled 16.6 billion pounds milk equivalent and cost more than two and one-half billion dollars.

Recognizing the unacceptable nature of surpluses and program costs, dairy farmers worked continually with the Congress since 1980 to develop programs to bring supply and demand and program costs back into acceptable levels. Many approaches were tried. At first the support price was frozen so as not to stimulate further supply. Next, dairy farmers began paying an assessment on every hundredweight of milk marketed commercially. Dairy farmers began paying assessments in April 1983 and continued paying assessments of either $1.00 or $.50 until March 31, 1985. As the assessment decreased, the price support level decreased thus continuing the price impact on the U.S. dairy farmer. A third $.50 decrease is expected on July 1, which will total a $1.50 decrease in the support price December 1983. In total, dairy farmers paid to the treasury nearly 1.5 billion dollars in an attempt to bring government costs into line. Also, a milk diversion program was tried and was successful during the 15 month period, January 1, 1984-March 31, 1985 during which time government purchases and costs were cut in half from the levels of the preceding marketing year.

The diversion program has now ended and milk production has shown some movement towards a greater imbalance. Dairy farmers continue to be concerned with this imbalance situation and as you know, are working diligently and have appeared before this committee just two months ago to present a program which hopefully will again restore balance to the dairy industry.

The National Milk Producers Federation and its members find it unconscionable that this government allows the importation of dairy products to continue at a time when dairy farmers have been asked to make such sacrifices to bring supply and demand into balance and reduce government costs. Casein is the lowest valued use of milk. When other, higher valued uses cannot be found for milk, it is manufactured into casein. That means that this country is absorbing the surplus of other countries and the American dairy farmer is being asked to pay the bill.

Since 1953, a comprehensive system of Section 22 import restraints has been applied to dairy products. In each instance, the application of such restraint grew out of the need to prevent interference with the Dairy Price Support Program by imports of a specific product or products.

The most visible indication of such interference has been the increase or prospective increase in the cost of the Dairy Price Support Program through additional Commodity Credit Corporation purchases of products made from milk displaced by the imported product.

This is precisely the situation that exists because of milk protein imports.

MILK PROTEIN IMPORTS

The primary group of products in this category, casein and mixtures of casein, historically had been devoted to industrial application. In this capacity, these imports did not interfere with the Dairy Price Support Program. The overall question of milk protein products, their importation and use in food and feed products in lieu of domestically produced milk solids is the product of rapid advances in food technology in recent years.

In 1955, the U.S. Department of Agriculture estimated that only 1.3 percent of the casein used in this country went into food and animal feed products. By 1967, estimates placed this use at 36 percent. These were general estimates, however, and it was not until the work done by the United States International Trade Commission under Investigation No. 332-105, that specific and detailed information became available on the extent of casein use in food and feed products. The data gathered by the Commission through that investigation has greatly improved the understanding of this situation, particularly in documenting the shift in use from industrial applications to use as an ingredient in food and feed products. A later Commission investigation, No. 22-44 indicated 85 percent of the casein for domestic use went into food and animal feed products in 1980.

The Federation first petitioned the Secretary of Agriculture to initiate proceedings under Section 22 of the Agricultural Adjustment Act to establish limitations on the import of casein and mixtures of casein in 1976. No action was taken on that petition or a subsequent petition until June 23, 1978 when Assistant Secretary of Agriculture Dale Hathaway formally responded for USDA rejecting the petition. In his rejection, Dr. Hathaway stated:

> "To obtain restriction of imports of given commodity, the Secretary of Agriculture must be able to show that such imports 'are being or are practically certain to be imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, materially interfere with' the Department's price support program. As a practical matter, we would have to show that casein imports are (a) increasing, (b) directly displacing significant quantities of domestically produced dairy products, and (c) causing excessive purchases and expenditures by the Commodity Credit

Corporation. Such evidence is not at hand. Until it is, the Department can not so advise the President."

Such evidence has been very much at hand since the early 1980's in each of the three areas noted by Dr. Hathaway. The work of the Commission in Investigation No. 332-105 and Investigation No. 22-44 documented the increase in imports in recent years and, of even greater significance, the shift in use from industrial applications to food and feed products. The subsequent study by the U.S. Department of Agriculture expanded on the Commission's work to specifically address the impact on the Dairy Price Support Program. In its report, U.S. CASEIN AND LACTALBUMIN IMPORTS: AN ECONOMIC AND POLICY PERSPECTIVE, the Department of Agriculture determined that 53 percent of the casein used in the United States in 1980 went into products for which domestic milk solids could be used. The study's basic conclusion was that imports of casein added some $300 million to the cost of the Dairy Price Support Program in 1980.

With this substantial evidence in hand, the Federation again requested the Department of Agriculture to request the International Trade Commission to hold a hearing to determine whether imported milk protein products should be allowed to continue to displace domestically produced milk solids which are purchased under the price support program, thus increasing government costs.

The International Trade Commission held a hearing on November 2, 1981 to gather evidence relative to the casein and milk protein problem. Despite the proponderance of study and evidence which showed that casein imports were on the rise, that casein was displacing domestically produced milk solids, and that 25 percent of the cost of the dairy price support program costs directly could be accounted for by casein imports, the Commission made the finding of "no material interference." Needless to say, dairy farmers were astounded by this finding.

At that time, concern was growing over domestic dairy surplus and government costs. Dairy farmers, by legislation were denied a price support increase earlier in the year and had had their price frozen for the 1981-82 marketing year. In light of this, it seemed unconscionable to the American dairy farmer not to take advantage of an opportunity to reduce the cost of the dairy price support program by $300 million, a full 25 percent.

Table 1 shows casein imports from 1972 through 1984 and the amounts that were used in food and feed products, thus displacing domestically produced solids. Even more recent data indicate that casein imports have continued to increase. For the first three months of 1985, casein imports have increased 18 percent beyond 1984 imports during the same period to 58.7 million pounds. At the time of the International Trade Commission hearing, the data shown in this table through 1980 was available to the commission.

Table 1. Imports of Casein and Volumes used in Production of Food and Feed Products, 1972-76 ave. and 1977 to 1984.

Year	Casein Imports	Percent of 1972-76 average	Casein Used Used in Food, Feed Products	Percent of 1972-76 average
	- 1000 lbs. -		- 1000 lbs. -	
1972-76 ave.	110,341	100.0	71,249	100.0
1977	144,245	130.7	110,457	155.0
1978	137,134	124.3	108,172	151.8
1979	150,827	136.7	121,846	171.0
1980	151,290	137.1	128,597	180.5
1981	127,994	116.0	108,795 1/	152.7
1982	176,824	160.3	150,300 1/	211.0
1983	159,676	144.7	135,725 1/	190.5
1984	192,510	174.5	163,634 1/	229.7

1/ Assumes percent of casein used in food and feed products holds constant at 85 percent (the 1980 level) throughout 1981-84 period.

The data in Table 1 does not reflect year-to-year inventory change. It does, however, clearly indicate the substantial growth that has taken place in import levels since the 1972-76 period. The growth of imports does not, by itself, reflect the full potential for displacement of domestic milk solids and impact on the price support program. To examine this aspect, one must look at the volume of the imports going into food and feed uses where this displacement takes place. In this instance, the growth has been even greater as one views the combined effect of absolute increases in import volume and the relative increases in the volume used in food and feed products.

While end use information is only available through 1980, the percentage had climbed to 85 by that year. For the last four years of the table, no further increases were assumed. This is a reasonably conservative assumption given the history of movement into feed uses. Also, much of the industrial use which was 13.0 percent of total casein use in 1980 was substitutable by soy or other protein which continue to have a price advantage over casein and likely has taken some of that market in the past four years. Therefore, the amount going to food and feed has skyrocketed to 230 percent of the 1972-76 average. In 1984, 192 million pounds of casein were imported of which an estimated 164 million pounds ended up or will end up in food and feed uses.

Although direct product comparisons among casein, skim milk products and whey products may be difficult, their use as a source of milk protein is one approach. In an effort to analyze the impact of casein used in the production of food and feed products over the past 24 years, we have developed a comparison of the use of domestic milk protein contained in a selected group of products with the milk protein from imported casein and nonfat dry milk used in food and feed products.

Table 2 provides the basic data for this comparison. The accompanying chart very graphically displays the growing use of imported milk protein (as contained in casein, mixtures of casein and nonfat dry milk) as a percent of the total United States use of milk protein from this selected group of products.

The combination of rising import levels and increased usage for food and feed production has increased the imports' share of the U.S. milk protein market for food and feed by 641 percent since 1960.

Some might cite the rapid increase in 1973 and 1974 and the subsequent decrease as proof that the pattern is erratic and therefore, unreliable. Quite the contrary. The increase in these two years came entirely from increased nonfat dry milk imports resulting from Presidential Proclamations expanding Section 22 quotas for the express purpose of depressing domestic prices. As the Commission learned during Investigation No. 22-35 conducted in connection with one of these import expansions, a substantial amount of this product was not utilized immediately but went into inventory to be used later. This accounts for the substantial decline in casein imports during 1975.

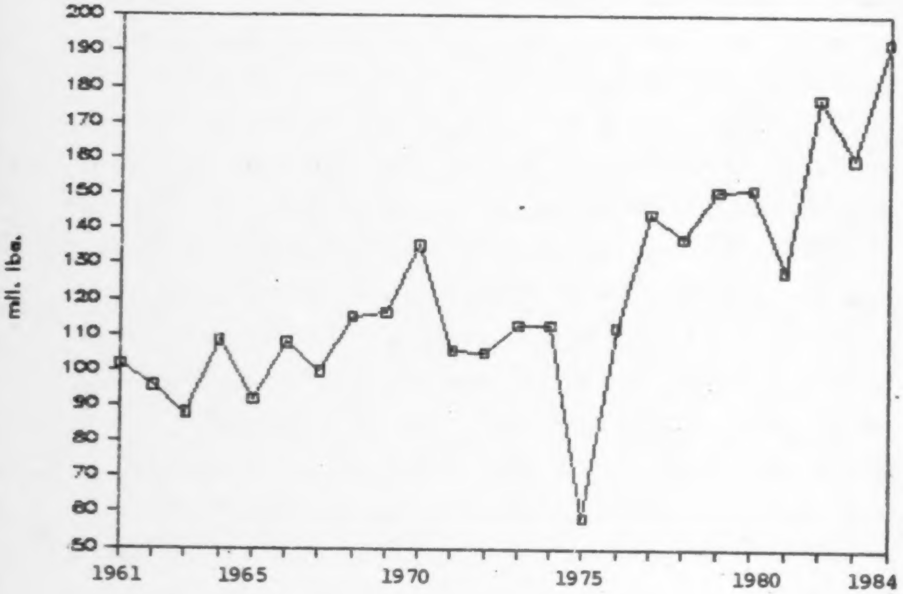
There has been a tendency to evaluate the impact of these imports on the U.S. dairy industry and the Dairy Price Support Program only in terms of the displacement of nonfat dry milk. This is not the question to be addressed. The point to be examined, as was done in the U.S. Department of Agriculture study, is the impact on milk solids, whether in the form of nonfat dry milk, fluid skim milk or other products.

TABLE 2. Comparison of domestic milk protein production (selected products), CCC removals of milk protein in nonfat dry milk, and utilization of imported milk protein from casein and nonfat dry milk in food and feed products, 1961-1980.

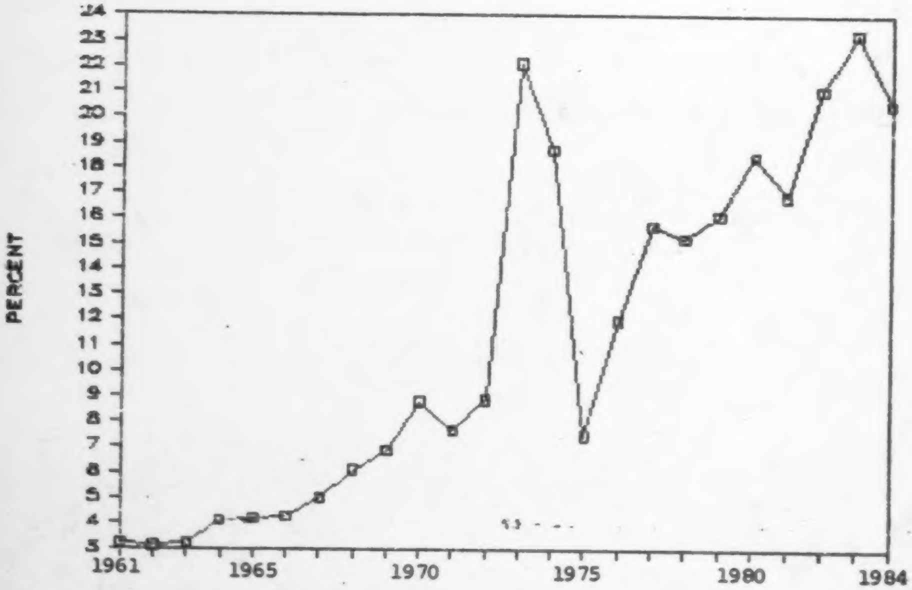
	Domestic Milk Protein Production Selected Products	Milk Protein In CCC Removals, Nonfat Dry Milk	Net Domestic Milk Protein	Imports NFDM	Imports Casein	% Casein Used in Food, Feed	Milk Protein in Imported NFDM, Casein for Food, Feed	Total Protein Used (3 & 7)	Imports as % of Total
	(mil. lbs.)	(mil. lbs.)	(mil. lbs.)	(mil. lbs.)			(mil. lbs.)	(mil. lbs.)	
1984	818.5	245.3	573.2	2.2	192.5	85.0 1/	148.1	721.3	20.5
1983	788.5	383.7	404.8	2.2	159.7	85.0 1/	123.0	527.8	23.3
1982	851.5	342.8	508.7	2.2	176.8	85.0 1/	136.1	644.8	21.1
1981	794.9	307.8	487.1	2.2	128.1	85.0 1/	98.8	585.9	16.9
1980	740.1	229.4	510.7	4.9	152.2	85.0	115.3	626.0	18.4
1979	666.4	92.3	574.1	2.2	150.8	80.8	110.5	684.5	16.1
1978	650.3	103.1	547.2	2.4	137.1	78.9	98.2	645.5	15.2
1977	703.0	167.0	536.0	1.8	144.2	76.6	100.1	636.1	15.7
1976	623.7	56.8	566.9	1.8	112.1	76.1	77.4	644.3	12.0
1975	641.0	142.7	498.3	2.5	58.4	75.7	40.7	539.1	7.5
1974	609.2	95.8	513.4	115.1	112.9	75.0	117.8	631.2	18.7
1973	596.9	13.3	583.6	226.6	112.8	68.0	165.4	749.0	22.1
1972	734.1	124.8	609.3	1.6	105.4	62.0	59.4	668.8	8.9
1971	817.2	165.0	652.2	2.1	105.9	56.0	54.1	706.4	7.7
1970	799.2	163.3	635.9	1.8	135.3	50.0	61.5	697.4	8.8
1969	791.0	147.2	643.8	1.8	116.1	45.0	47.7	691.4	6.9
1968	844.5	201.7	642.8	1.8	115.1	40.0	42.1	684.9	6.1
1967	873.2	248.4	624.8	1.8	99.7	36.0	33.0	657.8	5.0
1966	872.4	132.3	749.1	1.8	107.9	33.2	32.9	773.0	4.3
1965	988.9	397.2	591.7	1.8	91.8	30.3	25.7	617.4	4.2
1964	1,067.7	422.6	645.1	1.8	108.5	27.4	27.4	672.5	4.1
1963	1,046.9	440.9	606.0	1.8	87.9	24.5	20.0	626.0	3.2
1962	1,106.3	501.2	605.1	1.8	95.6	21.6	19.2	624.3	3.1
1961	930.6	392.6	538.0	1.8	101.8	18.7	17.8	555.8	3.2

Domestic milk protein production includes protein contained in the following products: Nonfat dry milk, dry whole milk, dry butter milk, dry skim milk, dry whey, condensed whey, modified whey, whey solids in wet blends, and bulk sunsweetened condensed milk. To reflect the addition of nonfat dry milk from CCC stocks used for domestic purposes, the protein contained in such product used domestically has also been added.

1/ Held constant at 1980 level—the survey estimate by the International Trade Commission.



CASEIN IMPORTS, 1961 - 1984



MILK PROTEIN IMPORTS AS A PERCENT OF TOTAL MILK PROTEIN USED

Approaching the issue on this basis addresses the full scope of the price support program itself and examines the full range of the impact of these imports. While there are some uses for which casein and nonfat dry milk are substitutes, nonfat dry milk is generally involved as the product produced from displaced skim milk.

The USDA study placed products using casein in three specific categories depending on the availability of substitutes for casein, Table 3. Group A, comprising those uses for which soy or other protein (including domestic milk solids) can be substituted for casein was determined to have accounted for 28.3 percent of total use in 1980. Group B, the category for which nonfat dry milk or skim milk could be substituted for casein represented 52.7 percent of 1980. The final category, Group C included those uses for which substitutes for casein are not available and represented 19 percent of 1980 use.

Table 3. Casein Usage By Product Group, 1980

	Millions of lbs of casein	% of total use
Group A: Soy or other protein can be substituted for casein		
Industrial	16.6	13.0
Bakery and breakfast foods (90%)	10.3	8.0
Pet Food	5.3	4.1
Animal Food (20%)	4.1	3.2
Group A total	36.3	28.3
Group B: NDM or skim milk can be substituted for casein		
Imitation cheese	41.6	32.5
Animal feed (80%)	16.5	12.9
Coffee whitener (28%)	3.4	2.7
Desserts (28%)	1.9	1.5
Other Foods	3.8	3.0
Group B total	67.5	52.7
Group C: Substitutes for casein not available		
Coffee whitener (72%)	8.9	6.9
Medical and specialty	9.4	7.3
Desserts (72%)	4.9	3.8
Bakery and breakfast foods (10%)	1.1	0.9
Group C total	24.3	19.0

Source: U.S. CASEIN AND LACTALBUMIN IMPORTS: An Economic and Policy Perspective
ESS Staff Report Number AGESS 810521, National Economics Division,
Economics and Statistics Service, U.S. Department of Agriculture,
June 1981.

This classification provides a clear focus for the issue. Over one-half of the casein utilized in 1980 was in products where it served as a substitute for domestic milk and milk products. The result of the substitution was the conversion of displaced milk solids into other products, the most common of these being nonfat dry milk. This is due to the fact that, lacking a commercial market, nonfat dry milk can be sold to the Commodity Credit Corporation under the Dairy Price Support Program.

The USDA analysis identified the displacement by imports of casein and lactalbumin of an equivalent of 333 million pounds of nonfat dry milk which was purchased by the Commodity Credit Corporation in 1980.

In examining the major individual categories of use, several important factors stand out. The production of imitation cheese is the largest and fastest growing category of casein use. This use represented just five percent of the casein use reported to the U.S. International Trade Commission in 1974 but had increased to 32 percent by 1980. It is regretable that data are only available through 1980. As one may notice throughout this testimony, continual reference is made to 1980 data. Of grave concern is the lack of data collection by the Department of Agriculture. To have a situation where in just six years, the use of casein in imitation cheese has jumped from five to 32 percent of total casein imported and the Department of Agriculture still ignores the need for tracking such a situation. The Federation and others have repeatedly requested such data collection since 1980.

In imitation cheese products, casein plays primarily the same role that it would if the cheese were produced in a traditional cheesemaking process. Casein is not unique to imitation cheese. It is the protein component of all cheese.

If imported casein were not available for the production of imitation cheese products, there is a simple and ready alternative. Skim milk. It is possible for nonfat dry milk to be used in the production of cheese. During 1978 and 1979, the Commodity Credit Corporation routinely requested offers from processors to convert nonfat dry milk from CCC stocks to mozzarella cheese for use in domestic child nutrition programs (USDA Announcement [illegible]). The more probable substitution, however, would be the use of skim milk in the production of these products.

The present situation is actually wasteful of energy resources. Presently, casein replaces domestic skim milk which is processed into nonfat dry milk. This operation uses substantial amounts of energy. The use of skim milk in the production of products such as imitation cheese products would actually reduce energy use.

Little data is available on the total production of imitation/substitute cheese products although most sources and studies agree that their primary use is in processed foods such as frozen pizza and prepared dinners. From this standpoint, it is questionable that arguments regarding consumer demand for the product carry a great deal of weight. In most instances, the only notice the consumer is given of the presence of imitation/substitute cheese in these products is on the package ingredient statement. Producers of these products have, in fact, strongly resisted efforts to require more specific labeling to prevent consumer deception.

A case in point is USDA's August 1983 proposed rule-making to establish, (1) prominent labeling for all meat food products utilizing imitation/substitute cheese and, (2) a six percent by-weight minimum cheese requirement for meat pizza products. Major pizza manufacturers utilizing up to 90 percent cheese substitute and 10 percent real cheese on their meat pizza products vehemently opposed the Department's attempt to adequately label these products. Even in the face of clear evidence indicating that the overwhelming majority of consumers want meat pizza products utilizing imitation/substitute cheese to be prominently labeled on the principal display panel with a phrase such as, "contains cheese substitute," manufacturers of such products prefer to hide the content of ersatz cheese in the ingredient statement. (Opinion Research Corporation, Consumer Survey, 1984)

In testimony submitted by the Federation in 1981 before the International Trade Commission, the following statement appeared in relation to the producers of imitation/substitute cheese. "The fact that processor economics is a major consideration is borne out by the conclusions of the study performed for the Food Safety and Quality Service of USDA by Arthur D. Little, Inc. In it's report, Economic Analysis of Using Cheese or Cheese-Like Substances In Frozen Meat or Sausage Pizza, Contract No. [illegible], March 1981, it is stated: 'All the industry sources contacted felt that over the next five years all frozen food manufacturers will be using some cheese-like substances in their products due to the rising cost of natural cheese.'"

However, examination of what actually occurred during this time is prima facie evidence that import control on casein is needed. The Dairy Diversion Program resulted in 4.2 billion pound decrease in milk production from 1983-84. This equates to 415.8 million pounds of natural cheese. In 1984, casein imports increased 32.8 million pounds which is equivalent to 130.8 million pounds of imitation cheese, or 1.5 billion pounds milk equivalent. Therefore, at a time when the nation's dairy industry was striving to balance supply and demand, the importation of casein effectively negated 35% of the total reduced production.

The fact that the use of these products is primarily a question of ingredient cost for the processor rather than one dictated by consumer choice is further borne out by conclusions of the USDA study. In discussing the Imitation Dairy Products, Meat Products and Other Foods use category, the report concludes:

> "In most of these products, skim milk solids can impart the desired characteristics; casein and/or caseinates were introduced and are widely used mainly for economic reasons. Thus, this diverse group of products can be classified into one general food product group because they could all use skim milk solids; most do not because of the higher cost involved."

The Department of Agriculture study did, as its basic conclusion, determine that imports of casein added $300 million to the cost of the Dairy Price Support Program during 1980. A related finding indicates the probable rapid continued growth, in the absence of limitations on casein imports, in the production and marketing of imitation cheese products. This has indeed happened (Table 1) and the result has been high costs to the price support program as additional quantities of domestic milk solids are displaced.

USDA data indicate that the net cost of the Dairy Price Support Program during the 1979-80 marketing year was $1,011 million. For the 1983-84 marketing year which ended September 30, the comparable figure is placed at $1,502 million.

Eliminating casein imports would not have eliminated the total cost for the Dairy Price Support Program, but it would have helped substantially. Casein added $300 million dollars to program costs in 1980 and up to an estimated $400 million in 1984. This represented 30 percent of program costs in 1980 and 25 percent of the 1984 cost.

The 1983-84 cost of the support program were over a billion dollars less than the previous year, as the Milk Diversion Program and Advertising and Promotion Program contributed to the eight billion pound decline in CCC purchases. American dairy producers paid, through a $.50 per hundredweight deduction, over $675 million dollars in 1984. The $400 million additional cost of casein imports not only represents a significant portion of the total cost of the Dairy Support Program, it amounted to over half of the amount farmers paid in 1984 toward funding the diversion program.

As previously indicated, the dairy industry has worked with Congress this past five years in an attempt to bring the supply and demand of milk back into balance, through decreases in production and funding of a diversion program. And this cooperative effort continues between the dairy industry and Congress. A tremendous stride in that effort would be the restriction of the free flow of milk protein imports that are compounding the surplus problem.

Congress is presently developing new general farm legislation that will form the basis for agricultural programs. Throughout the development of this legislation, the Dairy Price Support Program has been a major issue due to program costs in recent years and budget cuts due to the Federal deficit. While we do not know the final shape the program will take when work on the legislation is complete, one fact appears certain. The budget for the Dairy Price Support Program will be reduced. Given such a situation, up to 50 percent of the cost of the program would be attributable to these imports, using budget estimates ranging from $800 million to $1,200 million, if displacement remains at $400 million as previously estimated. This presents a totally indefensible position. Should a diversion program coincide with the budget reductions, U.S. dairy farmers will again be reducing their production while paying for problem surplus of other countries.

OTHER MILK PROTEIN PRODUCTS

While the bulk of the discussion has centered on casein and mixtures of casein, there are other milk protein products that should be mentioned in this testimony.

Congressman Rose of North Carolina and Congressman Roth of Wisconsin, have introduced bills (H.R. 1629 and H.R. 431 respectively) limiting the importation of casein and other milk protein products. The Federation applauds their work and their understanding exhibited by including other milk proteins.

Establishment of an import limitation at 50 percent of the import level during the past five years would provide suppliers with a known level of market, and users in this country would be assured of continued access on this basis.

With casein, such a limitation, using the past five years as the representative period, would mean an annual quota of 80.8 million pounds. This would still allow a substantial level of imports and be more than adequate to meet all needs which the Department of Agriculture has said could be substituted for by domestic milk solids.

SUMMARY

Through the work done by the Commission under Investigation NOs. 332-105 and 22-44, it has been determined that the level of imports of casein and mixtures of casein has increased substantially in recent years and that there has been a major shift in the use of these products from industrial applications to the production of a wide range of food and feed products.

Expanding on this work, the U.S. Department of Agriculture has determined, in its study, U.S. CASEIN AND LACTALBUMIN IMPORTS: AN ECONOMIC AND POLICY PERSPECTIVE, that these imports do result in substantial displacement of domestically produced dairy products. The USDA estimate of displacement at the equivalent of 333 million pounds of nonfat dry milk resulted in additional costs under the Dairy Price Support Program of $300 million in 1980. We estimate that these additional program costs approached $400 million in 1984.

Imports of casein in 1980 were 151.3 million pounds. In 1984, this figure swelled to 192.5 million. During the first three months of this year casein imports have again increased dramatically, an 18 percent increase when compared to January-March 1984 imports. With 85 percent of the imported casein being used in food and feed, one can reasonably estimate that casein added some $400 million to the cost of the dairy program in 1985. If the casein cost remains the same and the dairy budget is cut to $800 million to $1,200 million, as much as half of the budget will go to the purchase of other countries surplus.

In conclusion:

— Imports of casein and other milk protein have increased and are continuing to increase at a rapid rate.

-- These imports continue to displace large quantities of domestic milk and milk products.

-- This displacement is resulting in increased purchases and costs under the Dairy Price Support Program.

The National Milk Producers Federation endorses Congressional action to limit the importation of milk protein products, including casein, caseinates, lactalbumin, whey protein concentrates, and mixtures containing not less than five per centum of any product previously listed.

FOUNDED
1925

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STATEMENT
of
WARREN S. CLARK, JR., Executive Director

*

BEFORE THE

Livestock, Dairy, and Poultry Subcommittee
Committee on Agriculture
U.S. House of Representatives

June 5, 1985

*

With respect to

H.R. 1629 (To amend the Agricultural Act of 1949)
by
Rep. Charles Rose et al.
to limit the quantity of casein and other
milk protein products which are imported
into the United States

The National Trade Association of the Dry Milk Industry

My name is Warren S. Clark, Jr. I am Executive Director of the American Dry Milk Institute, Chicago, Illinois, which is a non-profit trade association comprised of cooperative and independent manufacturers of dry milks. The Members of the American Dry Milk Institute manufacture a majority of dry milk products, including nonfat dry milk, dry whole milk, and dry buttermilk, which are produced in the United States.

- * -

The American Dry Milk Institute fully supports the provisions of H.R. 1629 -- and concurrently the identical provisions and intent of H.R. 431 as proposed by Mr. Roth — to limit milk protein products imported into the United States to a quantity equal to 50% of the average annual quantity of such products that entered during the 5-year base period from January 1, 1979 through December 31, 1983. We also support the import licensing system for these products that has been proposed in the current bills.

In support of our position we wish to note some of our particular concerns regarding unrestricted casein imports. In the immediate past 8-year period for which complete production and utilization data are available (1976-1983), domestic utilization of nonfat dry milk declined from 710 million to 450 million pounds. (Table 1.) This decline represents a decrease of from 80.7% to 29.6% of the U.S. nonfat dry milk production[1]. During the same interval, casein imports have risen from 112.1 million to 159.5 million pounds. (Table 2.) In 5-year incremental periods, beginning in 1956, the average percentage of casein imports to domestic dry dairy products manufactured increased from 3.9% (1956-1960), to 4.8% (1966-1970), to 5.9% (1976-1980). Coupled with this historic, steady rise in casein imports has been a change in end uses for the product. According to USDA statistics[2], in 1967, 64% of the imported casein was used industrially while 36% was used for food and feed purposes. This pattern changed dramatically over the next several years, and in 1976, 71% of the imported casein products reportedly were used in foods and feeds and only 29% were used industrially.

A limitation to 50% of the average quantity of casein imported during the 5-year base period would result in a quota of approximately 77 million pounds yearly. This quantity would be 3-times greater than the quantity of casein projected as being necessary to meet those applications for which there is no apparent technical substitution for casein[3].

It is especially important to note that last year, and in fact in each of the past three years, annual casein imports have been higher than at any previous time -- 176.8 million pounds in 1982, 159.5 million pounds in 1983, and in 1984 192.3 million pounds -- 21% above 1983. During the first three months of 1985, casein imports were 2% above the same period in 1984. In the past 6 years, only in 1981, when International Trade Commission hearings were held into the matter of casein imports, have such imports dropped below 150 million pounds yearly.

This import pattern is of further concern when we review testimony presented in November, 1981, before the International Trade Commission, Investigation 22-44, Casein, and the proceedings of that hearing. On page 43 of the Prehearing Brief submitted on behalf of the New Zealand Dairy Board, the following summarized that Party's discussion of worldwide casein production, as well as quantities of dairy products manufactured in New Zealand --

> "Analysis of these factors for the future indicates that, over the next decade, growth in the milk supply in New Zealand will again be restricted to an annual increase on the order of 1% per annum, while over the next five years, it is planned to increase both cheese and whole milk powder production nearly 50 percent from the current levels of 100,000 and 90,000 tonnes respectively.
>
> "This growth in whole milk powder and cheese will absorb increasing quantities of milk, reduce the amount available for butter, and also the availability of liquid skimmilk for casein manufacture for export. As a result, current expectations are that casein exports, over the next five years, will most likely decline." (Emphasis added.)

This subject again was addressed at the ITC hearing. In paragraph 4, page 10 of the Statement on behalf of the New Zealand Dairy Board during its discussion of worldwide milk production and quantities of cheese, dry milk products and casein manufactured, the Board stated the following in response to any consideration of placing a quota on casein imports --

> "In short, there are no gates to be opened to massive casein imports. In fact quite the opposite seems to be the case."

Again, I invite your attention to casein imports for 1981 through the first three months of 1985. In 1981, while preparations were underway for a hearing on casein imports, the volume of that product imported fell to 127.8 million pounds. However, the following year, notwithstanding testimony submitted for the ITC hearing, casein imports rose nearly 50 million pounds (an increase of slightly less than 30%). In 1984, an increase of the same magnitude (nearly 30%) occurred as imports rose from 159.5 million pounds in 1983 to 192.3 million pounds in 1984. As previously noted, during the first quarter of 1985, casein imports were up 2% over the record all-time high established in 1984. If casein imports continue at this rate, the outlook for domestic dairy industry programs is, at best, poor.

In view of current domestic milk production and existing CCC stocks, this import situation is both deplorable and tragic. A mockery has been made of all persons associated with decision making and policy setting as it relates to management of the domestic dairy industry. Our industry did not believe projections given at that time (although some persons apparently did) and we believe the facts speak clearly in support of our views at that time. Obviously, we are not receptive to more of the same empty rhetoric now.

We now wish to present comments regarding other milk protein products covered by H.R. 1629 -- namely, lactalbumin and whey protein concentrates -- both of which currently are in various stages of development and/or commercial production in the

U.S. These products have numerous uses as nutritious food ingredients and thus are opening up new and extensive markets for domestic dairy products.

In November, 1982, the American Dry Milk Institute and the Whey Products Institute jointly filed a petition with the U.S. Customs Service regarding the tariff reclassification of Total Milk Proteinate, Whey Protein Concentrate and Lactalbumin. The petition sought to reclassify these products from broad tariff classifications outside the dairy area -- which, importantly, gave no indication of the basic constituents of the products (i.e., Total Milk Proteinate/Milk Protein Concentrate was classified under TSUS 493.17, "Other casein and mixtures in chief value thereof"; Whey Protein Concentrate was categorized under TSUS 183.05, "Other edible preparations not specifically provided for"; Lactalbumin was classified under TSUS 190.15, "Other albumen, not specifically provided for") -- into existing dairy classifications. Notwithstanding overwhelming and almost unanimous support for the proposal (only 10 comments in 118 requested clarification or expressed opposition), Customs denied the petition on December 21, 1983.

Our industry continued to pursue this matter and on July 30, 1984, Senate Bill #2883 was introduced (Sen. John C. Danforth) to recognize, define, and establish specific tariff classifications for these three dairy products. This legislation subsequently became part of the Senate Trade Bill (#3398); it was approved by Congress as the Omnibus Trade Bill and, as you know, signed into law by the President. As a result of these actions, line items were established in the Tariff Schedules of the United States, within the dairy section of the tariff schedules, for the three products, Milk Protein Concentrate, Lactalbumin and Whey Protein Concentrate. Only since January 1, 1985, have data been available on the quantities of each of these products -- if properly identified and labeled -- being imported monthly. Because these products are derivations of dairy products currently subject to import quotas under Section 22 of the Agricultural Adjustment Act, their level of import is being monitored closely to determine if the import levels interfere with the domestic dairy support system and hamper our own dairy industry in its early attempts to find its way out of the current dairy crisis. Attached to this statement are the import data reported to us to date (January - March) in 1985. Unfortunately, the figures on TSUS items 118.35 - Whey Protein Concentrate, 118.40 - Lactalbumin, and 118.45 - Milk Protein Concentrate are too recent to give us much information. Customs officials now are dealing with new dairy items and it likely will take time on their part to recognize and properly designate dairy product imports into their correct classifications. It is important that this designation be closely monitored as, in addition to the casein imports to date in 1985, "Casein mixtures" as well as "Other casein mixtures" are being imported and as the "Other casein mixtures" category formerly contained Milk Protein Concentrate and perhaps other dairy products, such products may still be reflected in that category. If the relatively high level of imports under TSUS #493.12, 14, and 17 continue, it is the intent of our industry to request (and perform as necessary) compositional testing to determine the validity of the classifications.

In the absence of extensive historical data for Milk Protein Concentrate, Lactalbumin and Whey Protein Concentrate imports, we recommend that quotas be established at 250,000 pounds annually *for each product*. It is our understanding that this recommendation and request comes at a time well before imports of these three products reach a crisis level that threatens to inflict grave harm to an established user industry in this country. For example, we are informed by Customs that only small quantities of the three dairy products under discussion currently are entering the country. Thus, established markets and established interests that are dependent on the import of these products do not exist. Establishment of the quota recommended will, we believe, be in the best interest of the U.S. dairy industry as well as the related industries and consumers it serves.

In conclusion Mr. Chairman, we wish to reiterate our full support for the provisions of H.R 1025. We encourage the members of this Sub-committee to carefully consider our comments and recommendations and to include all casein and caseinate products (i.e., those reflected by TSUS #493.12, 14 and 17) within the 50% quota level based upon the 5-year base period. Additionally, we urge the establishment of a non-conflicting quota of 250,000 pounds each for Milk Protein Concentrate, Lactalbumin and Whey Protein Concentrate.

Thank you for establishing a formal means for us to communicate this information to you. We trust it will be useful in your subsequent deliberations and, of course, we are available to respond to any questions or observations you may wish to pursue on the matter.

(Attachments follow:)

[illegible]

References

[1] [illegible]

[2] [illegible]

[3] [illegible]

Table 1. Comparison of Nonfat Dry Milk Production and Domestic Use Trends, 1976-83.

Year	Production	Domestic Use	Percent of Production
	——— millions of pounds ———		
1976	930	710	80.7
1977	1,100	670	58.3
1978	930	650	68.4
1979	910	590	68.7
1980	1,160	520	44.7
1981	1,310	460	34.7
1982	1,400	430	31.2
1983	1,500	450	29.6

Table 1. Production of domestic dry milk and whey products and imports of casein
United States, 1956-84

Year	Dry milk products				Whey Products					Total dry milk and whey	Casein imports	Casein percent of total	
	Nonfat dry milk	Dry whole milk	Dry butter-milk	Dry skim milk	Lactose	Dry whey	Concen-trated whey	Modified whey	Whey in wet blends				
						Million pounds							
1956	1,489.9	110.3	64.3	19.1	33.3	197.8	72.4	---	---	1,987.2	78.7	3.6	
1957	1,623.9	103.2	70.4	21.2	37.5	211.7	55.7	---	---	2,123.5	74.6	3.5	
1958	1,709.7	87.7	77.2	21.5	35.4	233.3	48.6	---	---	2,213.0	91.3	4.1	3.9
1959	1,723.2	90.4	81.5	23.3	47.3	247.3	41.3	---	---	2,254.3	94.5	4.2	
1960	1,818.6	98.0	86.4	25.9	50.1	276.9	34.8	---	---	2,390.7	92.2	3.9	
1961	2,019.8	81.7	89.0	27.8	55.5	271.5	39.7	---	---	2,565.1	101.8	4.0	
1962	2,230.3	80.1	86.4	30.5	52.3	284.8	34.3	---	---	2,804.7	95.6	3.4	
1963	2,130.1	91.0	87.5	23.6	39.4	318.9	45.7	---	---	2,710.3	87.9	3.2	
1964	2,177.2	87.6	92.6	22.0	41.3	371.9	58.4	---	---	2,850.5	108.5	3.8	
1965	1,980.5	88.8	87.4	24.6	65.0	404.3	60.4	---	---	2,718.9	91.8	3.4	
1966	1,579.8	94.4	76.2	26.1	65.1	470.9	77.5	---	---	2,390.1	107.9	4.5	
1967	1,678.7	74.3	72.6	30.3	79.2	492.8	71.1	---	---	2,499.1	99.7	4.0	
1968	1,586.4	78.8	70.4	27.0	83.0	498.8	63.3	---	---	2,416.7	115.1	4.8	4.8
1969	1,452.5	70.2	66.5	14.4	92.9	518.5	83.9	---	---	2,276.8	116.1	5.1	
1970	1,444.4	68.9	58.5	11.7	97.6	621.0	90.0	---	---	2,393.1	135.3	5.7	
1971	1,417.6	72.2	51.7	11.4	85.2	679.4	114.8	---	---	2,432.3	105.9	4.4	
1972	1,223.5	75.2	49.5	12.9	87.3	762.0	70.1	---	---	2,280.5	105.4	4.6	
1973	916.6	78.0	43.3	9.8	113.2	772.4	69.5	---	---	2,002.8	112.8	5.6	
1974	1,020.0	67.7	45.3	5.6	130.8	851.4	60.9	---	---	2,181.7	113.3	5.2	
1975	1,001.5	63.1	42.8	7.9	139.0	595.6	87.8	172.0	81.3	2,191.0	58.4	2.7	
1976	926.2	70.1	46.3	5.9	137.4	661.8	139.0	165.1	73.8	2,233.6	112.1	5.0	
1977	1,106.6	69.4	53.2	7.9	108.8	627.8	145.5	179.0	68.3	2,366.5	144.2	6.1	
1978	920.4	74.6	47.6	6.5	114.5	711.5	144.4	205.0	98.1	2,320.6	137.1	5.9	5.9
1979	908.7	85.3	44.7	6.1	109.2	732.9	99.8	176.8	137.8	2,301.3	150.8	6.6	
1980	1,160.7	82.7	43.9	6.9	140.2	689.7	85.7	192.8	144.1	2,546.7	151.2	5.9	
1981	1,314.3	92.7	43.8	7.0	162.1	770.7	113.0	173.5	160.4	2,846.3	127.8	4.5	
1982	1,400.5	102.2	38.6	9.7	144.4	790.5	141.7	234.2	136.3	2,998.1	176.8	5.9	
1983	1,499.9	111.7	46.5	10.3	130.3	892.2	136.5	202.3	124.0	3,153.2	159.5	5.1	
1984	1,158.9	119.6	39.5	7.8	123.8	897.9	130.0	194.0	135.7	2,797.2	192.3	6.9	

Source: SRS, USDA.

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1925

AMERICAN DRY MILK INSTITUTE, INC.
130 NORTH FRANKLIN STREET, CHICAGO, ILLINOIS 60606 TEL (312) 782-4888

Summary of Selected U.S. Dairy Product Imports[1]
(Quota & non-quota items)

March 1985

TSUS Classification			Volume of Imports[2]	
Tariff #	Quota #	Product Nomenclature	Current Month	Year-to-date
115.45[3]	950.01	Dry Buttermilk	0	0
115.50[3]	950.02	Nonfat Dry Milk	348,690	891,068
115.55[3]	950.03	Dry Whole Milk	0	0
115.60	950.04	Dry Whole Milk >35% milkfat	0	0
118.05[3]	950.01	Dry Whey	0	11,000
118.30	950.11	Malted Milk	21,464	38,764
118.35	- [4]	Whey Protein Concentrate	366,072	366,072
118.40	- [4]	Lactalbumin	0	0
118.45	- [4]	Milk Protein Concentrate	0	131,890
156.30/ 183.00	950.16	Chocolate Crumb, 5.5% or less milkfat	0	40,748
156.30	950.15	Chocolate Crumb >5.5% milkfat	324,298	694,351
182.92/ 183.00	950.23	Butterfat Mixture >5.5% milkfat	138,965	1,178,788
	950.22	Butterfat Mixtures >45% milkfat	- [5]	- [5]
184.80	950.17	Animal Feed Milk Solids	14,854	43,198
493.12	- [4]	Casein	19,110,912	50,743,387
493.14	- [4]	Casein Mixtures (i.e. Junex)	39,958	174,989
493.17	- [4]	Other Casein Mixtures	3,114,369	8,000,007
493.65	- [4]	Lactose	308,808	577,739

[1] Source: U.S Census Bureau.

[2] Expressed in pounds.

[3] Product designed for animal feed covered by separate quota, number 950.18.

[4] Quotas not yet established; no quota number assigned.

[5] Data not available.

* *

Established Yearly Import Quotas:*

950.01 - 496,000
950.02 - 1,807,000
950.03 - 7,000
950.04 - 500
950.11 - 6,000

950.15 - 21,609,202
950.16 - 4,600,002
950.17 - 16,300,000
950.18 - None
950.22 - None
950.23 - 2,380,000

*Expressed in pounds

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AMERICAN DRY MILK INSTITUTE, INC.
130 NORTH FRANKLIN STREET, CHICAGO, ILLINOIS 60606 TEL. (312) 782-4888

Summary of Selected U.S. Dairy Product Imports[1/]
(Quota & non-quota items)

April 1985

TSUS Classification			Volume of Imports[2/]	
Tariff #	Quota #	Product Nomenclature	Current Month	Year-to-date
115.45[3/]	950.01	Dry Buttermilk	0	0
115.50[3/]	950.02	Nonfat Dry Milk	281,299	1,172,367
115.55[3/]	950.03	Dry Whole Milk	0	0
115.60	950.04	Dry Whole Milk >35% milkfat	0	0
118.05[3/]	950.01	Dry Whey	0	11,000
118.30	950.11	Malted Milk	18,567	57,331**
118.35	- [4/]	Whey Protein Concentrate	70,547	436,619
118.40	- [4/]	Lactalbumin	76,059	76,059
118.45	- [4/]	Milk Protein Concentrate	231,483	363,373
156.30/ 183.00	950.16	Chocolate Crumb, 5.5% or less milkfat	0	40,748
156.30	950.15	Chocolate Crumb >5.5% milkfat	745,163	1,439,514
182.92/ 183.00	950.23	Butterfat Mixture >5.5% milkfat	449,876	1,628,664
	950.22	Butterfat Mixtures >45% milkfat	- [5/]	- [5/]
184.80	950.17	Animal Feed Milk Solids	19,000	62,198
493.12	- [4/]	Casein	13,690,201	64,433,588
493.14	- [4/]	Casein Mixtures (i.e. Junex)	0	174,989
493.17	- [4/]	Other Casein Mixtures	3,532,850	11,532,857
493.65	- [4/]	Lactose	471,665	1,049,404

1/ Source: U.S Census Bureau.

2/ Expressed in pounds.

3/ Product designed for animal feed covered by separate quota, number 950.19.

4/ Quotas not yet established; no quota number assigned.

5/ Data not available.

◆

Established Yearly Import Quotas:*

950.01 - 496,000
950.02 - 1,807,000
950.03 - 7,000
950.04 - 500
950.11 - 6,000

950.15 - 21,409,202
950.16 - 4,680,002
950.17 - 16,300,000
950.19 - None
950.22 - None
950.23 - 2,580,000

*Expressed in pounds
**Import volume reflects entire Tariff classification, not specific Quota item

TESTIMONY FOR
DAVID SENTER
NATIONAL DIRECTOR
AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. Chairman and members of the Committee, thank you for the opportunity to appear before your Committee on this important issue.

The American Agriculture Movement supports H.R. 1629 and urges prompt positive action on it. Milk protein imports are not a new problem, but their impact is drastically increasing. In 1980, 150 million lbs. of casein alone was imported. Three pounds of casein replaces 100 pounds of fluid milk and impacted our domestic program by $329 million. In 1984, the total casein import dollar value during November and December was more than the total government purchases of non-fat dry milk.

We cannot allow U.S. producers to continue to carry the burden to adjust production and pay the costs, while foreign producers have an open door. Foreign producers have just received increased quota's in Europe to offset lower price support levels.

Casein imports should and must be brought under our quota's to level the playing field for U.S. producers. We realize this legislation will not solve the problems, only a fair price will. Lower U.S. prices will only produce more milk. We need a national quota plan with parity loan rates for the dairy industry.

Thank you Mr. Chairman for the opportunity to speak before this committee and I will be glad to answer any questions you may have.

Presented by

Max N. Berry

General Counsel/Executive Director

Committee to Assure the Availability of Casein

Mr. Chairman and members of the distinguished House Subcommittee on Livestock, Dairy and Poultry: My name is Max N. Berry, of Washington, D.C., and I am General Counsel and Executive Director of the Committee to Assure the Availability of Casein ("CAAC"). We oppose H.R. 1629 for many reasons which will be discussed during our testimony. The "CAAC" was organized in 1978 when it became obvious that certain elements within the United States dairy industry would not accept a 1977 decision of the then Secretary of Agriculture, Bob Bergland, that casein did not, in fact, interfere with the dairy price support program. Our membership has grown since then to include a cross-section of U.S. companies, big and small, doing business in every state in our country. A list of our membership is attached hereto for the information of the Committee.

Secretary Bergland repeated his decision of 1977, and again rejected requests made by the National Federation of Milk Producers and the Dry Milk Institute for a Section 22 quota on casein in both 1978 and 1979. As we will soon testify in more detail, the International Trade Commission under section 332 (fact-finding study) of the Tariff Act of 1930, agreed that there was no disturbance to the dairy price support program by imported casein in a finding dated December, 1979. This ITC decision reflected a very thorough investigation of the subject.

However, in 1980, at the request of the Secretary of Agriculture, the Department of Agriculture conducted yet another study on this subject and again agreed that there was no disturbance to the price support program because of imported casein. Despite these previous government reports and decisions of former Secretary Bergland, Secretary Block did call for a section 22 hearing on casein in mid 1981. The final decision of this section 22 hearing was issued by the International Trade Commission in January, 1982. Again, the ITC agreed that the overwhelming amount of evidence supported the previous conclusions that the facts showed that imported casein simply did not disturb the dairy price support program of the United States.

One would think that because of all of these government studies on casein, and past requests to the Secretary of Agriculture seeking a quota on this valued imported protein, that casein must rank with key, controversial trade issues of the day, such as steel, textiles, automobiles and shoes! The fact is, nothing could be further from the truth. Just a few years ago not many people, in Washington, D.C. at least, even knew what casein was.

Briefly stated, casein is not manufactured in the United States. It used to be manufactured here, but when the price support program decided to support nonfat dry milk, casein production in this country went out of business. Casein is one of the most complete and highest quality proteins known, containing all of the amino acids essential to the human diet. It is the principle protein in milk, comprising over 80% of its total protein content. Casein serves as the U.S. government standard against which all other protein is measured. It is an integral part of the American diet today and is used in over 400 consumer packaged products which are found in our local grocery stores. It gives the consumer an economical source of high quality nutrition and protein. Casein is a key ingredient in baby foods, bakery products and related mixes, breakfast drinks, cakes, canned and frozen meat dinners, cereal, cheese substitutes, confections, cosmetics, desserts, dietary supplements, diet beverages, coffee whiteners, intravenous feeding preparations used in hospitals and for nutritional purposes for people not in good health, formulas to keep babies alive who suffer from a lactose intolerance, whipped toppings, pet foods, pies, potato chips, puddings, sauces, snacks, soups, and a host of other products. In fact, attached to this testimony is a list of many products which were found in one supermarket in Dallas, Texas. Casein is also used in many industrial products such as in superior glue and paper coating products. Many physicians and dieticians recommend foods containing casein for cholesterol free diets. At the section 22 ITC hearing, a former President of the American Heart Association testified in support of the continuous, uninterrupted flow of casein imports.

It is important for this Committee to know that casein is also used in the formulation of superior quality calf nursing products. In other words, the dairy farmer and certain dairy cooperatives are buying casein in significant amounts to be used in calf milk replacers and in veal feed products. Also, when I speak of consumers using coffee whiteners, potato chips, cupcakes, etc., I am including the dairy farmer and his family who, no doubt, have many casein products on their shelves back on the farm. In fact, what we are talking about today is, in part, "consumer choice". Does the consumer have the right to continue to purchase products which he or she desires containing casein, or should these products be removed from the marketplace, or increased in price,because a substitute for casein is used, because of an unnecessary and unjustified quota?

It should be pointed out, as all of the government studies cited conclude, that in most of the products utilizing casein it is scientifically impossible to substitute nonfat dry milk for casein. I would estimate that in over 90% of the food products using casein that nonfat dry milk cannot technically be used in any of those products. Do we want to take coffee whiteners away from the U.S. consumer or make them more expensive? Do we want to take low cholesterol, dietetic foods away from the consumer or make them less nutritious and more expensive? Since these products cannot use nonfat dry milk, what the government studies have shown is that users would either not make the product or would shift downward to use a soya isolate or some other substitute for casein giving the consumer not as good or as nutritious a food product for more money. Many of the companies using casein are searching for a substitute for casein. It has been predicted that one will be found for most uses in the near future.

Our position with respect to quotas, whether they are proposed under Mr. Rose's bill, H.R. 1629, or under any other bill or vehicle, is that we totally oppose any restriction on the importation of casein,which is not produced in the U.S., for two very important and basic reasons:

First, the importation of casein does not materially effect or interfere with or jeopardize the U.S. dairy price support program. At this point, I would like to introduce for the record, the two International Trade Commission reports which I mentioned earlier dated December, 1979 and January, 1982, as well as the USDA report on casein which was published near the end of 1980.

The USDA Abstract stated:

> "This study examines the economic implications of restricting the importation of casein and lactalbumin--dairy proteins used in various food, feed, and industrial products. Under existing legislation and trade agreements, the most extreme restrictions that may be imposed are a 50-percent quota or a 50-percent ad valorem tariff. If either of these were imposed, users of casein would shift to soy-based protein and other ingredients wherever possible, although product quality could suffer. Some casein use would be replaced by skim milk solids, but not enough to significantly affect CCC purchases under the dairy price support program. Import restrictions would increase the cost of producing goods containing casein, and thus raise prices to consumers."

The ITC report of December, 1979 stated on page 4 and 5 thereof:

> "The data collected during the course of the Commission's investigation indicate virtually no relationship between imports of casein and mixtures of casein and purchases of nonfat dry milk under the price-support program in recent years. Likewise, no clear relationship is apparent between imports and domestic production or consumption of nonfat dry milk. Additionally, no clear relationship is apparent between imports of casein and mixtures of casein and other forms of domestic dairy production. Products of the dairy industry are not considered by most of the end users of the imports to be a primary or technically viable substitute for casein in many of its current uses. In its industrial applications (accounting for 21 percent of casein consumption in 1978 as reported in the Commission's questionnaire), casein's competition comes primarily from soy and other products outside the dairy industry. In the area of food and feed uses (accounting for 79 percent of reported casein consumption in 1978), casein can be said to compete with natural cheese and nonfat dry milk in a technical sense. Imitation cheese, the primary food product made from casein, accounted for only an estimated 2 percent of total U.S. consumption of natural and imitation cheese in 1978 and, hence, cannot be considered significant competition for natural cheese. Imitation cheese also has certain special characteristics, e.g., low cholesterol and improved melting qualities, which cause it

> to appeal to a different set of consumers, and thus it cannot be considered to be totally substitutable for natural cheese. Further, there is not currently a formulation for imitation cheese which could wholly substitute other dairy products for the casein in imitation cheese. Indeed, during the investigation information was submitted suggesting that when a natural cheese is blended with an imitation cheese, that quantity of natural cheese may never have been consumed if not for the economic attractiveness contributed by the blending with the substitute cheese."

The Section 22, ITC report of January, 1982 stated on page 1:

> "On the basis of the information developed in the course of the investigation, the Commission finds and recommends that casein, mixtures in chief value of casein, and lactalbumin, provided for in items 493.12, 493.17, and 190.15, respectively, of the Tariff Schedules of the United States (TSUS), are not being, and are not practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support program for milk undertaken by the Department of Agriculture, or to reduce substantially the amount of any product processed in the United States from domestic milk."

It is interesting to note that in the Section 22 case, as reported in the January, 1982 ITC report, the USDA, while attending and testifying at the hearing, did not, and I repeat did not, recommend quota action or increased duties for imported casein to the ITC. The USDA witnesses factually could not state that there was a price support problem with imported casein at that hearing. It was the first time in Section 22 history that the Department of Agriculture, at a public hearing, did not recommend a punitive action!

Can all the government reports, and the consecutive actions by past Secretaries of Agriculture, be wrong? It should be kept in mind that the "CAAC" did not ask for these government reports formulated at a considerable cost to the taxpayer. In each case, the National Milk Producers Federation, supported by the Dry Milk Institute and other organizations such as the Wisconsin Cheesemakers Association, asked for each of these studies. It is somewhat interesting to note that each time one of these reports was issued, all of those organizations did not like the results and eventually prompted an additional study.

Second, since casein is not produced in the United States, a quota barring its availability would bring economic disaster to many U.S. companies, their employees and customers. Consumers would be deprived of hundreds of products. No country in the world has deemed it necessary to place a quota on casein!

THE IMPORTATION OF CASEIN DOES NOT MATERIALLY AFFECT THE DAIRY PRICE SUPPORT PROGRAM

This is a fact, which our Committee can prove, and has been a fact in every year that casein has been imported into the United States! Certain dairy interests have repeatedly charged, without the support of facts, that the availability of imported casein interferes substantially with the dairy price support program. This is simply not true.

Imports into the United States of casein in 1978 totalled 137 million pounds, a reduction from the 146.5 million pounds imported in 1977. In 1979, 151 million pounds of casein was imported and in 1980 imports were the same as in 1979 - 151 million pounds. In 1970, casein imports were over 135.3 million pounds and last year, 1984, casein imports increased to over 190 million pounds.

Those of you on the Committee may ask why did casein go up in 1984 to over 190 million pounds? Actually, when one thinks that casein in 1970 was 135 million pounds, and casein 15 years later totalled about 190 million pounds, there has not been that big of an increase. Furthermore, our estimation is that about 35 million pounds of the 1984 figure is caused by quota scares such as the one we are facing today. Importers, when they see certain dairy interests clamoring for a casein quota -- once again -- it scares them and they stockpile casein in warehouses. Furthermore, the strength of the dollar makes casein an attractively priced, unique protein product today and adds to the stockpiling when the quota scares arise.

But let's look at the facts. Does casein disturb the price support program? Look at the chart on the next page entitled "Casein Imports Do Not Relate to CCC Purchases of NDM".

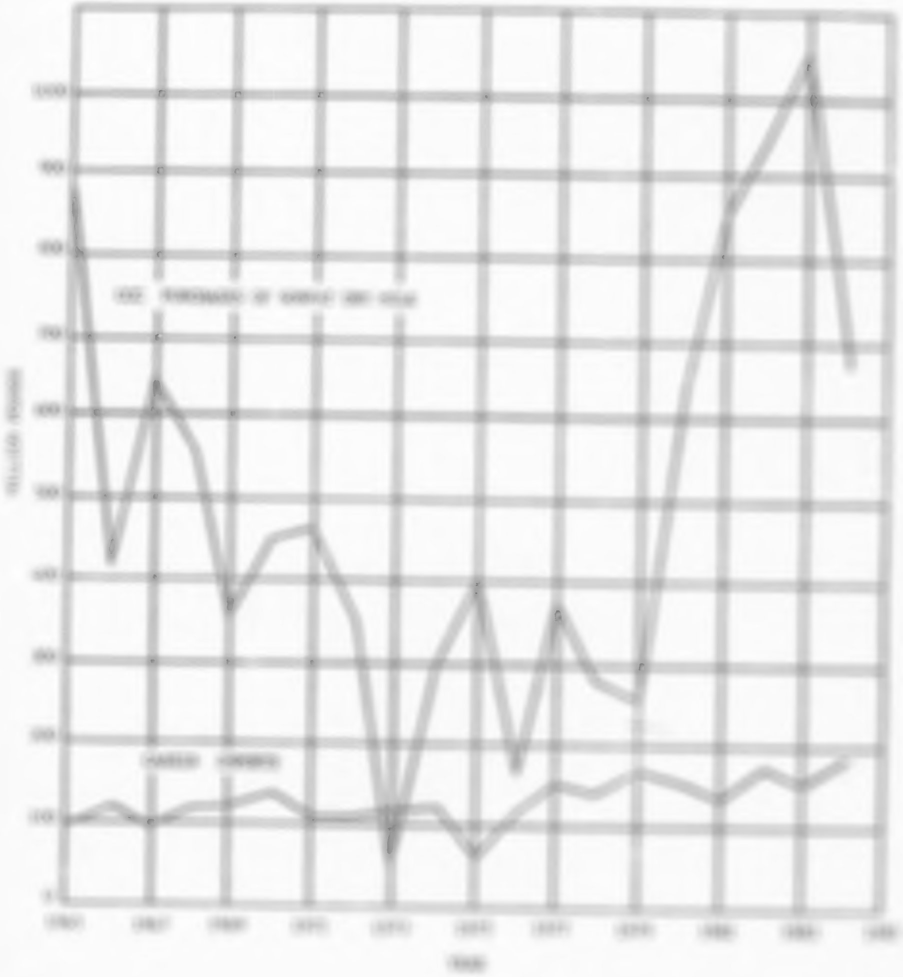
CASEIN IMPORTS DO NOT RELATE TO CCC PURCHASES OF NDM

Millions of Pounds

Year	Casein Imports (1)	CCC Purchases of NDM (1)
1970	135.3	451.6
1971	105.9	456.2
1972	105.4	345.0
1973	112.8	36.8
1974	113.3	265.0
1975	58.4	394.5
1976	112.1	157.1
1977	146.5	461.7
1978	137.1	285.0
1979	151.0	255.3
1980	151.2	634.3
1981	127.8	851.3
1982	176.8	948.1
1983	159.5	1061.0
1984	192.3	678.4

(1) USDA Statistics

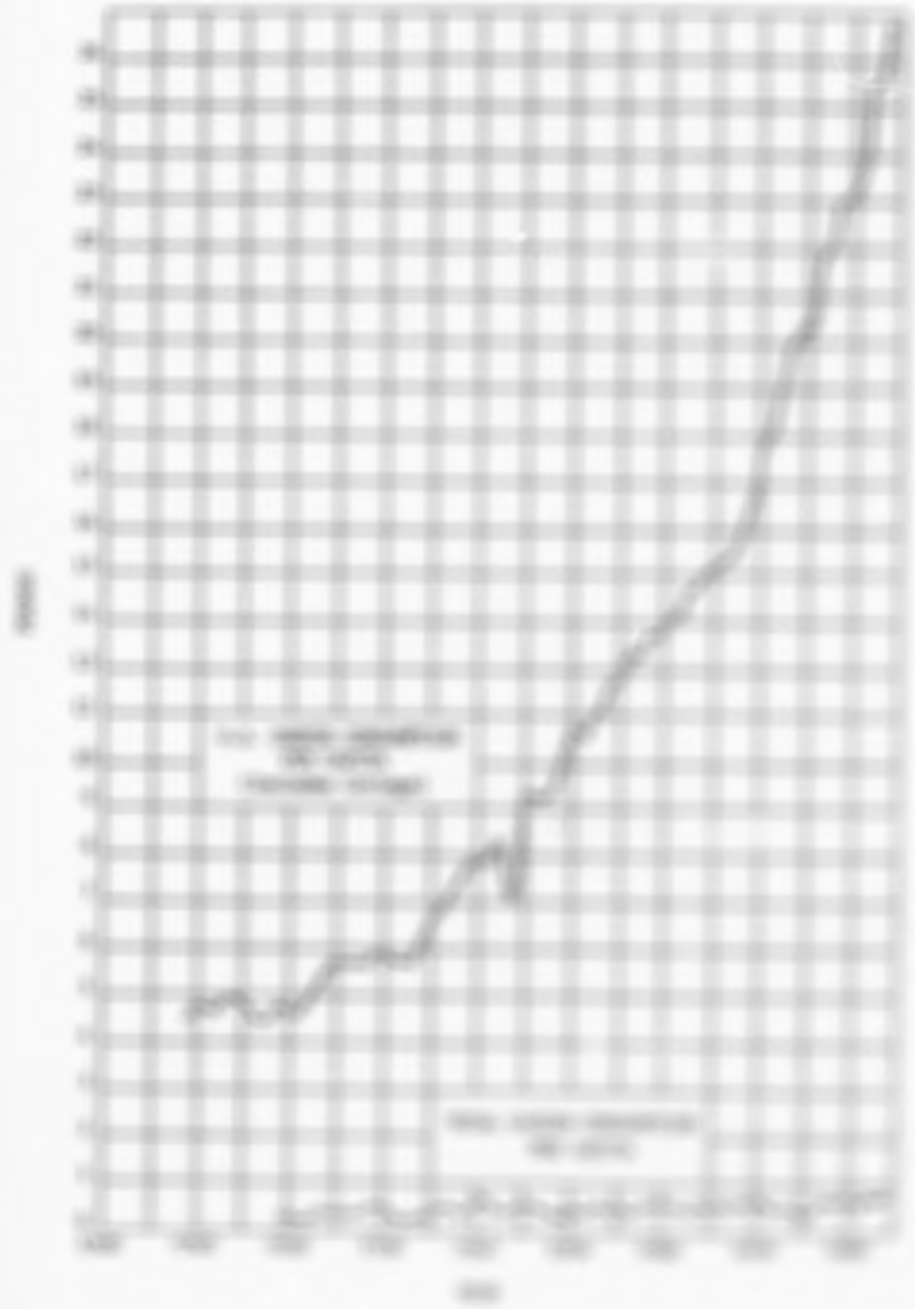
USDA PURCHASES OF NDM AND CHEDDAR CHEESE



* In 1977, dates of Marketing Year were changed. However, during this 3 month transition period, [illegible] million lbs were purchased.

[illegible]

[illegible]



This is a chart covering 1970 through 1984. Look at 1971. Imports of casein were 105 million pounds and purchases were 456 million pounds under CCC. In 1972 imports were virtually the same and purchases dropped! Then in 1973 imports went up slightly to 112 million pounds and CCC purchases dramatically dropped to 36 million pounds. Then in 1974 casein imports remained the same and CCC purchases skyrocketed to 165 million pounds. Then in 1975 - a big recession year - casein imports dropped down to 58.4 million pounds and what happened with CCC purchases? They went up close to 400 million pounds. And then when casein imports went back to 112 million pounds in 1976, purchases dropped way down to 157 million pounds. Then in 1977, casein imports were at 146 million pounds, but CCC purchases tripled to 461 million pounds! The story goes on and on when one studies this chart. In 1979 -- casein imports were 151 million pounds and purchases were at 255 million pounds, and in 1980 casein imports were the same, 151 million pounds, but purchases again tripled to 634 million pounds! In 1981, casein imports dropped to 127 million pounds, but purchases continued to rise dramatically to 851 million pounds, and in 1983, when casein imports had dropped down from 1982 to 159 million pounds, CCC purchases rose to a billion pounds! There is clearly no relationship to CCC purchases with imports of casein. This chart proves this fact. Look at it another way. Look at the next graph showing USDA purchases under CCC and casein imports. You will see a very eratic line for CCC purchases -- jumping up and down. In fact, it looks sort of like a roller coaster, but the casein imports line is rather steady. This chart starts in 1965 and goes through 1984. The last chart we present the Committee is quite interesting. It shows cheese and casein consumption over a period of many years. You will see on the chart that cheese consumption in the U.S. starts around 1910 at slightly under 5 pounds per person and rises dramatically in 1984 to about 27 pounds per person. A dramatic increase! Look at casein consumption in the U.S. from 1920 until today's date. It goes virtually sideways -- about 1/4 of a pound per capita in 1920 to 3/4 of a pound per person in 1980.

What has caused the CCC purchases to be such a problem? It's not casein. We all know the answer -- unlimited CCC purchases of overproduced NFDM. Casein imports, as all the government studies prove, is truly "de minimus" when one compares it to the CCC purchase program.

Dairy interests, recognizing that changes in the price support payment are inevitable have, (1) tried to blame all CCC purchases of nonfat dry milk on casein rather than admit that the current high levels of purchases might be due to the current price support incentive and, (2), which is really more disturbing, leadership of some dairy groups want a quota on casein simply so they can return to their membership having accomplished something in return for giving up the current parity formula despite the fact that it won't help the dairy farmer. (See the Bob Kaiser "Washington Post" article attached hereto). In the Kaiser article from "The Washington Post" entitled "How a Lobby Milks a Nonissue", the following is stated:

> "...The dairy industry argues that if casein imports were limited, users would turn to nonfat dry milk as a substitue increasing consumption of that product. That would reduce government surpluses of nonfat dry milk, the industry says, thus lowering the costs of the dairy price support program.
>
> "If the program can be made cheaper, the industry argues there would be less justification for holding down the basic dairy price support.
>
> "This is the industry's line. It has all the intellectual sinew of a cover story. In fact, dry milk cannot be used for most of casein's uses. There would be much substitution, according to all the government studies, and according to industry officials, too. The suspicion is irresistible that the dairy lobby in Washington is primarily interested in casein as a fight it might win.
>
> "'It's a classic example' of the way lobbyists look for issues to score points on, according to Ellen Haas of the Community Nutrition Institute, a 'public interest' lobbying organization. 'They had to win on something.'"

A QUOTA RESTRICTING THE AVAILABILITY OF CASEIN WILL BRING ECONOMIC DISASTER TO MANY U.S. COMPANIES, THEIR EMPLOYEES AND CUSTOMERS; WOULD HURT CONSUMERS AND WOULD BE INFLATIONARY

Since there is no domestic production of casein, a quota on imports, as Representative Rose proposes, would deprive U.S. consumers of hundreds of needed consumer products. (See the attached Dallas supermarket shopping list, the list of 34 food categories using casein, and the pamphlet "Casein is..." attached to this submission.) If casein were produced in the U.S., and it would take at least a year to accomplish this, American consumers would then suffer the effects of artifically-inflated prices for the many products which utilize casein. They could end up paying for the development of a now-unnecessary domestic casein industry through added costs for the products using casein. Or they could end up paying, in both dollars and consumer satisfaction and choice, for casein substitutes which would not possess the same properties that make casein so desirable in so many products.

It is estimated that a casein import quota would inevitably produce price increases, toward a $3.50 per pound price! This estimate represents about $2.50 per pound more than the price of current imported casein. If 1984 imports of 191 million pounds are considered, this would mean the American consumer would pay about $300 million more in raw material costs alone!

We can only speculate on what the net effect would be -- and on the untold millions of dollars that would need to be spent -- to replace casein in many areas within the food industry. A casein import quota would place U.S. food processors at a serious disadvantage.

It is unthinkable that a high quality protein source such as casein could be curtailed by 50% or more from use in the American food, animal feed, and industrial sectors. A casein import quota would impose inequities upon Americans by removing thousands of unique, low cost products from the marketplace, and would, in turn, increase consumer costs abruptly.

Aside from its inflationary impact, a casein quota would have other adverse effects on our economy. It would be unrealistic to assume that the disruptive effect of a casein quota on such a large segment of the American food industry would not result in widespread changes in the industry. Investments in plant and equipment, as well as jobs of food industry workers, could be affected by these changes.

Additionally, a portion of the food industry has grown around specialty consumer products using casein. The development of these unique products is a classic case of consumer food choices through technology. A quota on casein imports would bring costs and prices to the point where this innovation for consumer welfare would be discouraged and, perhaps, halted.

CASEIN UTILIZATION

Casein has been coming into the U.S. for over 30 years, without incident, and as a product that is under continuous scrutiny both by the USDA and the U.S. Food and Drug Administration (FDA).

Concern over the impending world protein shortage in the 1960's resulted in extensive research and development in human food uses of casein, which had long been recognized by nutritionists as the basic reference protein. Particular attention was given to the functional properties of casein and caseinates, and their use in a variety of processed foods.

The ability of casein to bind fat, to modify viscosity, increase whiteness, form stable foams and retain water are all properties which are useful to the food technologist.

U.S. industry has developed a broad and growing range of uses for casein and caseinates in recent years. Casein imports are being used for human food, with primary caseinate uses including coffee whiteners, whipped toppings, special nutritional infant food formulas, instant breakfasts, high protein cereals and cheese substitutes. Caseinates are also used as binders in sausage, weiners and luncheon meats and, as previously stated, as a needed supplement in bakery products, frozen desserts, sauces and special dietary foods.

If a food processor were unable to obtain casein for these applications, it would have to search for a substitute. There are other binders and emulsifers available. There are other thickening and whipping agents available. The reason that some of these are not presently being used in place of casein is that they do not perform as well as casein. As stated, one product that could not be used in these applications in nonfat dry milk, because it is not a binder, it has little water-retention capability, and it does not possess much in the way of emulsification, thickening or whipping properties.

The imposition of a quota on casein imports would threaten many products. A large number could not be manufactured at all, while still others would be changed so drastically as to render them unusable for their stated dietary purpose.

In its January, 1980 report, the U.S. International Trade Commission reported that food processors are in agreement that:

> "consumers . . . would be either deprived of these convenience foods or would have available a less desirable substitute product."

In response to questionnaires sent to food processors, including producers of low-fat cheese substitutes and coffee whiteners, the same report found in summary that:

> "End users of imports of casein and mixtures of casein used in food and feed covered by the questionnaire, who account for about 65 percent of the imports so used, reported that they would not use nonfat dry milk under current conditions if casein were not available. Rather, producers accounting for 54 percent said they would discontinue production of their products. . ."

DEVELOPMENT AND PIONEERING OF CASEIN PRODUCTS

Casein was first used for adhesive purposes in industry early in the 19th century. Later, acid casein was used widely for paints and leather finishing, and rennet casein for decorative plastics. However, more recently, substitutes with similar functions have been developed from petrochemicals and corn and soy proteins. Thus, in the course of normal technological and commercial development, casein, which had acted as a leader in these fields, has found itself replaced in many applications by newer products. However, it should be noted that it is still used in these various industrial applications.

These traditional uses greatly enhanced the knowledge of the functional properties of casein, and the means of controlling these to commercial advantage. This knowledge, combined with the known nutritional qualities of casein, and growth in interest in safe formulated foods, has led over the last 25 years to an appreciation of the value of incorporating casein in food systems.

It is generally accepted that an ideal food protein ingredient will be free of toxic and off-flavor factors, have a high protein concentration, and, while being compatible with the other ingredients and processes used, provide function and nutritional quality. In addition, of course, any such product must meet the economic criteria of reasonable cost and availability.

All of the criteria just outlined are met very effectively by casein. For example, it is used extensively in animal and pet foods, for both its nutritional and functional properties. Its inclusion boosts the nutritional value of cereal proteins, while its emulsifying properties allow products of suitable consistency to be produced. Nonfat dry milk cannot be substituted for casein in these products.

We are now seeing the development of isolated vegetable proteins to supplement the supplies of casein and derivatives and extend the general development of fabricated foods into some further areas. In these developments, casein may well be seen once more as a model food protein in the same way as it has, in the past, served as a prototype industrial protein. This competition has, once again, led to the further development of specific casein products of enhanced properties, including freeze/thaw stability, controlled viscosity, and specific types of dissolving properties.

Little of this would have been possible without imported casein. Imported casein developed the market and helped users to develop the technology.

CHEESE SUBSTITUTES

New food products having an appeal to the consumer must be allowed to compete in the marketplace. In recent years, several companies have successfully introduced cheese substitute products to the American consumer. Casein is the only protein source for this product because of its function. Nonfat dry milk cannot be substituted for casein in these products.

Cheese substitute products work in concert rather than in conflict with cheese producers because they introduce consumers, who might feel they cannot afford the cheese itself, to a cheese-like product that has similar nutrition. For those consumers who desire a product like cheese, but without the animal fat and cholesterol, cheese substitutes fill a definite need. From a nutrition standpoint, cheese substitutes provide a very attractive alternative to natural and processed cheese, without sacrificing high quality protein. Also, most cheese substitutes are composed of about 10% natural cheese - giving natural cheese a new market. Are the cheese substitutes used on frozen pizzas bought in the grocery store a threat to the production of natural mozzarella in the U.S.? We submit clearly that it does not pose such a threat, but that it does create a separate market for consumers who want a fast, nutritious, convenience food at a low price, while watching a football game or running out the door to some social function. When such a consumer goes to an Italian restaurant and orders a pizza with his family of friends, he or she will pay more money and get pizza with real cheese. A new market has been created.

And guess what natural cheese product produced in the U.S. leads all cheeses by leaps and bounds? Natural mozzarella! In fact, production of the Italian-type cheeses in the U.S. are the forerunners in the cheese industry boom and have just celebrated their 32nd consecutive year of record high increases. Production of Italian cheeses in the U.S. in 1983 increased 10.3% over 1982, representing the largest production jump in 31 years. Per capita consumption in the U.S. of Italian-type cheeses keeps increasing.

In short, the continued availability of cheese substitutes made with casein represents a positive way for consumers to fight inflation while gaining a valuable source of protein and nutrition.

SPECIAL PRODUCTS -- NO FUNCTIONAL SUBSTITUTES AVAILABLE

The use of casein/casein mixtures not only offer an economic advantage to the American food industry, but in some cases such blends are essential for maintaining the health of infants, children and adults. Casein ingredients are used to meet the special dietary needs of an estimated one million Americans. These are, for the most part, special medical foods. Satisfactory substitutes for the casein in these products are simply not available.

Some of these products are used by moderately large population groups. The availability of casein, particularly in the manufacture of low-fat cheeses and egg substitutes, provides consumers with nutritional foods which are low in cholesterol. However, many are uniquely designed for small groups with very special medical needs and they are available from few manufacturers.

These include products formulated especially for children with phenylketonuria, a genetic defect which can cause mental retardation. Other products are used in hypo-allergenic formulas and in treating infants suffering from diarrhea and celiac disease. Another specially-formulated product is used for the nutritional management of infants and children who do not efficiently digest or absorb regular dietary fats. Casein must be used to provide a high quality protein source, yet still assure a product that is free of the lactose that is present in milk or milk solids.

There are also a number of adult nutritional products which are dependent on ingredient casein. These products include a liquid protein for tube feeding the patient who cannot eat, supplemental nutrients for patients who cannot chew, and a low sodium food useful as an important source of protein and minerals whenever dietary sodium must be restricted.

Other proteins cannot duplicate the nutritional quality and functional characteristics of casein. Moreover, the importance of these products lies not in their use by large numbers of consumers, but in the number of patients who cannot survive or live reasonably normal lives without these special products.

A restrictive import quota as Mr. Rose proposes would produce precipitous price increases for ingredient casein. These added raw material costs would almost certainly be passed on to the patients and institutions who need these products. This is particularly distressing because, from the patient's perspective, these nutritional products are necessary -- not discretionary -- products.

THE WHEY DISPOSAL PROBLEM

A whey surplus is still a problem for many U.S. dairy producers and was a subject of a hearing by this Committee not too many years ago. Billions of pounds of whey, a by-product of cheese production, are generated each year in the United States. With American cheese consumption on the rise, as we noted earlier, cheese production has increased significantly in recent years. This has brought about a related increase in whey availability, although the demand for whey products has not increased at the same rate.

Whey utilization is a serious problem facing U.S. dairy producers. While limited quantities can be used in specialty products, and the "CAAC" is encouraged by the progress being made in this area today, the vast bulk of this whey must be treated in company or municipal waste disposal facilities. In many locations around the country, existing pollution control facilities are straining to meet this increased demand placed on them.

No facilities to produce casein now exist in the United States, so a totally new industry would have to be developed if Mr. Rose's proposed quota became law. If U.S. dairy producers were to make up for about 100 million pounds of lost casein imports, they would place substantial pressure on existing disposal facilities. The processing of 100 million pounds of casein in the U.S. will produce billions of additional pounds of acid whey. This will add to the total whey problem and significantly increase the amount of acid whey produced. The capital expenditures for disposal of the whey would be enormous.

Imported casein and casein mixtures can actually aid in the disposal of domestic whey. In some of its applications, the use of casein allows for the utilization of whey in the range of 2 1/2 to 6 pounds of whey solids for every pound of casein. Although the statistics for the total quantity of whey being incorporated into products which also include casein are sketchy, it's certain to be in excess of 100 million pounds per year.

Whey utilization has shown significant progress in recent years, but the fact remains that U.S. dairy producers -- and indirectly, the U.S. taxpayer -- should not be faced with an additional disposal problem of this magnitude. The production of additional whey from casein manufacture would certainly compound this problem.

CASEIN "MILK REPLACER" FEEDS AN ECONOMIC FACTOR

Casein is a basic component found in nearly 50 percent of calf milk replacers and veal feeds manufactured in the United States. If casein ever becomes unavailable or becomes much more costly to the feed and livestock industry, the results would be disastrous. The reasons are clear -- casein feeds are superior and more economical than other protein feeds in the marketplace.

One feed and livestock company, in testimony before the International Trade Commission in 1981 warned that a casein quota would (1) lower the quality of calf milk replacers and veal feeds on the market, and (2) eliminate an all-milk product that has surpassed any soy product or other product that is currently on the market.

Blended with liquid fat and whey (a by-product of cheese), casein feed provides economical benefits to the farmer. If casein imports were cut off, farmers would have few acceptable alternatives. If edible grade nonfat dry milk were substituted for casein in these feed products, it would increase the cost of milk replacers by about $400.00 per ton and the cost of meat production 35 cents per pound.

If casein became unavailable to the veal industry, faced with the above statistics, the outlook would be grim . . . more feed for less gain with higher death loss and higher medication costs.

Many agricultural industries have become dependent upon each other. Casein feeds are often used for weaning heifers for dairy herd replacement and bulls for beef starters. A large increase in the death loss of calves would be very detrimental to both the dairy and beef industries. If casein imports were limited by quota, the situation could cause the farmer hardships both in the quality of his product and in the cost of his feed, which, at certain times, he cannot pass on. And when these costs are passed on, the American consumer faces higher prices at the supermarket.

FOREIGN TRADE AND RELATIONS

A program to restrict casein/casein mixture imports would most certainly invite criticism and possible adverse action from those countries whose producers would be affected. Such a program would represent a move away from more liberated international trade, at a time when the United States is encouraging its trading partners to reduce artificial trade barriers.

No country in the world today, including the United States, has found it necessary to place a quota on casein. There is no justifiable reason for the United States to become the first nation to do so. A casein quota could be termed an unreasonable act of "protectionism."

Casein, like other dairy products, was the subject of the Geneva Trade Negotiations -- The Trade Act of 1979. Casein tariff questions are under the scope of the General Agreement on Tariffs and Trade ("GATT") and the United States should be mindful of the fact that any quota imposed on casein, in the opinion of our Committee, would have adverse international implications especially with the three largest supplying countries to the United States -- New Zealand, Australia and Ireland which ship about 75% to 80% of all imported casein to the United States.

U.S. agricultural exports are about the only bright spot in our trade relations with other nations. U.S. farm exports over the last decade have annually been in the black by billions of dollars each year even though this favorable picture has been somewhat diminished by a strong U.S. dollar.

A casein trade barrier, such as a quota, would not only have an adverse effect on our relations with important trading partners, but would deprive United States manufacturers and consumers of valuable products which serve us well economically and nutritionally.

NO CASEIN QUOTA EXISTS IN THE WORLD TODAY

As stated previously, casein is the one dairy product, perhaps because of its very useful nature, that has not been faced with a dairy quota by any country in the world today. For all the aforementioned reasons given, very good reasons which have been supported by three recent U.S. government studies, the "CAAC" suggests that the United States not become the first country to place a quota on casein. It urges this Committee, knowing that the Committee has a very sincere desire to help the dairy farmer in a meaningful way, to not get off the track and support such a "nonissue" or "bad issue" -- a casein quota. Certain sectors of the dairy industry should strive, at this time, for as much credibility as possible. It is submitted that the U.S. taxpayer has paid enough already for one government study after another; all exonerating casein from disturbing the price support program and each of them having been initiated by the very dairy interests who have asked Congressman Rose and others to introduce the proposed legislation before this distinguished Committee. The bill, the subject of this hearing today, is not good proposed legislation. It defeats consumer choice and ironically would hurt the dairy farmer in products which he needs like calf milk replacers and veal feeds. In fact, some of the largest dairy co-ops in business today are large purchasers of casein. If you ask them off the record, they will tell you that this is true.

CONCLUSION

Because casein does not interfere with the price support program, because it is not produced in the United States and would be highly inflationary if it were, and because U.S. consumers want and need casein based products, a quota, of any type, should not be imposed. There is no justifiable reason, based on merit or facts to require a quota as Mr. Rose suggests.

The "CAAC" sincerely appreciates the consideration by this Committee of its views.

Respectfully submitted,

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General Counsel and
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June 5, 1985

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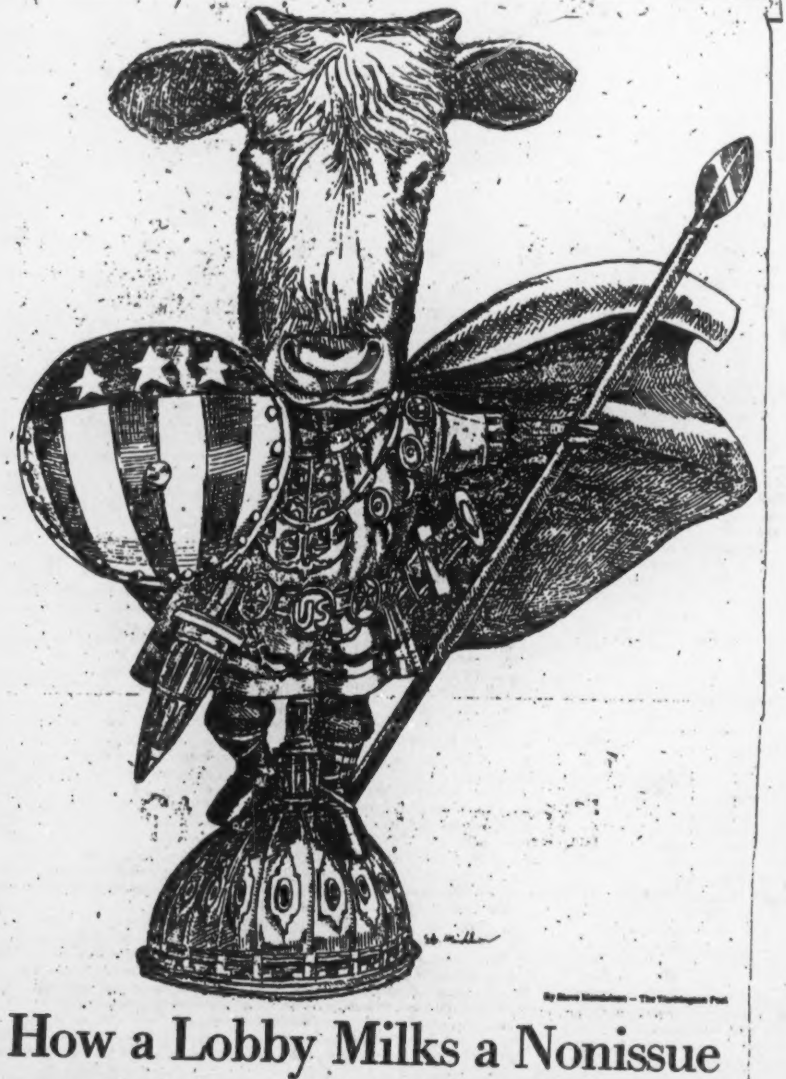

By [illegible] — The Washington Post

How a Lobby Milks a Nonissue

By Robert G. Kaiser

IN THE GALLERY of dubious issues invented in Washington, let history make room for casein, a substance that seems ideally suited for the conversion of molehills into mountains.

Casein is milk protein, and it is a marvelous product — the dairy cow's answer to Kryptonite. It is used to make pharmaceuticals, glue, paper coatings, coffee whitener, artificial whipped-cream topping, baby formula, imitation cheese and probably the occasional kitchen sink.

Casein also makes a big political furor, thanks primarily to the dairy lobby, which seems determined to gain a symbolic victory on casein simply to demonstrate it can win on some issue. Any issue.

Hundreds of thousands of taxpayers' dollars have already been spent investigating casein. Now President Reagan's secretary of agriculture wants to cut the import of casein by half, a move his own department says would cost U.S. consumers $115 million.

Reagan has gone along by asking for yet another government study of casein, which will cost tens of thousands of dollars more. So tomorrow morning the International Trade Commission, the government agency empowered to investigate charges of unfair trading practices, begins this latest inquiry.

Robert G. Kaiser is a Washington Post staff writer who has been reporting periodically on dairy industry lobbying.

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CASEIN, From Page C1

The story of casein is an example of the way lobbyists and members of Congress can seek out issues that might make them look good with voters at home and with the clients who hire them to influence government decisions. Import restrictions on casein would not measurably improve any dairy farmer's standard of living, but the lobbyists and some members of Congress have been working for such restrictions as though they were crucial to the farmers' survival.

□ □

Among casein's many unusual qualities is this: None of the stuff is "Made in U.S.A." This country is by far the world's leading producer of milk, but the government's dairy price support program does not cover casein. Therefore, producers would lose money if they manufactured casein, a product that comes from the same milk curds that go into cottage cheese. So all the casein used here must be imported.

That's the rub. America is a free-trading nation in principle, but not in agricultural products. Few agricultural commodities and no dairy products can come into this country freely, but casein is officially categorized as an industrial, not an agricultural, product. There is no limit and no duty on its importation, and it comes in at a cheap price compared to other forms of milk protein.

On the basis of these facts, the American dairy industry, and particularly its representatives in Washington, have decided to make a big — yes, an enormous — deal out of casein.

The principal figure in this effort is Patrick B. Healy, secretary of the National Milk Producers Federation. Healy contends that imports of casein "must be controlled" to preserve markets for U.S. dairy products and to reduce the cost of the government's dairy price support program. Healy has been fighting for restrictions on casein imports since Earl Butz was secretary of agriculture.

The dairy industry's friends in Congress have been echoing Healy's certainty about the ill effects of casein imports as if they had read the message on a new stone tablet. "Look at casein," shouted Rep. James M. Jeffords (R-Vt.) in a recent House debate. "If we just eliminate casein imports, we do away with 3.3 billion pounds" of milk surpluses.

The dairy industry argues that if casein imports were limited, users would turn to nonfat dry milk as a substitute, increasing consumption of that product. That would reduce government surpluses of nonfat dry milk, the industry says, thus lowering the cost of the dairy price support program.

If the program can be made cheaper, the industry argues, there would be less justification for holding down the basic dairy price support.

□ □

This is the industry's line. It has all the intellectual sinew of a cover story. In fact, dry milk cannot be used for most of casein's uses. There wouldn't be much substitution, according to all the government studies, and according to industry officials, too. The suspicion is irresistible that the dairy lobby in Washington is primarily interested in casein as a fight it might win.

"It's a classic example" of the way lobbyists look for issues to score points on, according to Ellen Haas of the Community Nutrition Institute, a "public interest" lobbying organization. "They had to win on something."

It is indisputable that the dairy lobby has not been having one of its best seasons. Tough and resourceful as ever, it has been unable to avoid the repercussions of huge government-owned surpluses of dry milk, cheese and butter — surpluses produced in part by the lobby's past successes in raising basic dairy price supports.

This year dairy farmers are hurting. Their prices are not keeping up with inflation, and their real incomes will fall. Healy and others in Washington who have to explain these unhappy developments to their troops presumably would like to have a victory on casein to balance the bad news.

As an official of one of the big dairy coops put it, action restricting casein imports would have "a tremendous psychological impact. It's all we've got. You've got to get something out of Congress."

One of the dairy lobby's traditional advantages has been tenacity, and the casein crusade is no exception. Healy has been pressing it for years, and in 1979 he persuaded the House Ways and Means Committee to ask the International Trade Commission to investigate the impact of casein imports.

Unfortunately for the dairy lobby, the ensuing study did nothing to bolster its case. The ITC concluded that there was "virtually no relationship between imports of casein and the purchases of nonfat dry milk under the price support program." The commission found that powdered milk could not be substituted for most uses of casein, which depend on its unique physical properties.

The dairy lobby rejected that finding and began to press the Carter administration to conduct another study, this one inside the Agriculture Department. Bob Bergland, Jimmy Carter's secretary of agriculture, held the dairy lobby off for months. But in the spring of 1980, shortly before the important Wisconsin ("America's Dairyland") primary, he put the new study into motion. "We can't prove there was a connection between the two events," a smiling civil servant at the department said later.

Last June the department's study was published. It concluded that the Trade Commission had been correct — neither import quotas nor a duty on casein would significantly affect consumption of powdered milk.

Under the law, it would be possible either to reduce imports by up to half the amount imported in a representative recent period of time, or impose a duty of up to 50 percent of the value of the casein. The Agriculture Department's study concluded that a quota roughly cutting imports in half would convince most users of casein to do without the stuff or find substitutes based on soybeans, not powdered milk. The report estimated that just 10.3 million additional pounds of powdered milk would be consumed each year. (The government currently has 800 million pounds of powdered milk in storage, and is adding millions more each week.)

A 50 percent import duty would result in "no increase in the use of domestically produced skim milk solids," the report said. Either move, it said, would add tens of millions of dollars to the retail costs of products based on casein.

Despite the real conclusion that no legal quota or duty would significantly affect the consumption of powdered milk, the lobby preferred this sentence in the report:

"If no casein had been imported in 1980, commercial disappearance (that is, use) of domestic skim milk solids would have increased by the equivalent of 333 million pounds of nonfat dry milk. Thus, government

From a brochure by the Committee to Assure the Availability of Casein

How a Lobby Milks a Nonissue to Stay Alive

purchases of nonfat dry milk would have been 333 million pounds lower, saving about $300 million on Commodity Credit Corp. outlays (for the purchase of surplus milk)."

Kenneth Clayton, author of the report, admitted in an interview that this hypothetical proposition has no basis in reality, not least because there would be no legal way to block all imports of casein, and even the dairy lobby says it doesn't want to do that. (Much casein is used for pharmaceutical products and baby formula for children who can't digest milk.)

Moreover, there would never be full substitution of milk for casein. Clayton said of this figure, "Not that it was very realistic . . . but we needed a base."

□ □

Realistic or not, friends of the dairy industry like the number. Rep. Thomas E. Petri (R-Wis.) used it in a recent House debate. Noting that the U.S. imported 152 million pounds of casein last year, "the equivalent of 333 million pounds of nonfat dry milk," Petri told the House: "All or most of this amount of milk may have been sold on the commercial market if it were not for the imported casein."

Later Petri was asked for the basis of this contention. "It just says 'could have,' " Petri said of his statement on the floor. He said he knew the Agriculture Department had concluded that milk could not be substituted for casein, "and that could well be true." He was speaking of a hypothetical case in which the government banned all casein imports, he said.

Sen. David Boren (D-Okla.) made Petri's use of figures look conservative in a Senate debate. Last year's casein imports displaced "upward of 4 billion pounds of domestically produced skim milk," Boren declared solemnly, offering no rationale whatsoever for his assertion.

In private conversation, some dairy lobbyists argue that the real problem with casein is prospective — that its use is growing fast and could take off if not controlled. But the facts don't sustain this contention either.

This year, it appears, casein imports will total about 135 million pounds, some 17 million pounds less than last year and roughly the same level as in 1970. Casein imports jump up and down from year to year.

It is true that an increasing amount of casein goes into food products, particularly imitation cheese. Most of that apparently ends up in pizza.

Imitation cheese made with casein is cheaper — and much less tasty — than the real thing. There is a growing market for the stuff, part of it for straight imitation cheese eaten by people on diets restricting their intake of animal fats.

However, it isn't easy to make a case that casein imports — or anything else — is holding down consumption of real cheese. Americans are on a cheese binge. From 1970 to 1980, consumption of real cheese in this country grew from 2.3 billion to 4 billion pounds. This is the only segment of the dairy industry that is booming.

□ □

The dairy lobby and its friends in Congress seem to realize that they cannot make too strong a case for a significant cut in casein imports, so they have recently taken a different tack.

Originally the industry and its supporters sought a "zero quota" in casein imports, as Healy noted in a recent interview. (Now he says charges that the industry wants to exclude all casein imports are "ridiculous, ridiculous.") Then the lobby went for a quota that would cut imports by more than half.

But in September, Sen. John Melcher (D-Mont.), one of the dairy lobby's staunchest allies, introduced a new resolution in the Senate calling for a quota of about 140 million pounds a year, the average level of imports over the past five years. The Senate actually endorsed this proposal in a nonbinding attachment to its version of the farm bill.

Asked why the industry had modified its objective, Healy said it was a matter of "what can be obtained." Neither house of Congress appeared willing to go along with deeper cuts, Healy said. "It's extremely important that we do cap these imports at some point," Healy added. "More and more ersatz foods are being developed from it," he said, noting that this seemed to be a pattern in other foodstuffs, too. "These foods that we have eaten for millenia, that have nurtured us to where we are, should not be tampered with," Healy added.

This latest gambit leaves the industry in a quandary. It sought an International Trade Commission investigation on the ground that the current level of imports "materially interferes" with the dairy price support program. Now the industry seeks an import quota that would preserve the current level of imports.

This is one of the issues the ITC will have to deal with at the hearing that begins tomorrow morning.

CASEIN PRODUCTS ON THE SHELF OF ONE SUPERMARKET STORE IN DALLAS, TEXAS

PRODUCT GROUP	BRAND NAME	MANUFACTURER
Baby Food	National Arrowroot Biscuit	Nabisco, Inc.
Baby Formula	Ensure Liquid Nutrition-Vanilla Flavor	Ross Laboratories Columbus, Ohio
Canned Soup	Campbell's Old Fashioned Tomato Rice, Cream of Onion, Cream of Potato, Cream of Celery	Campbell Soup
	Food Club Cream of Chicken, Cream of Celery	Dist. by Topco Assoc., Skokie, Il.
Dry Soup	Homemade Soup Starter-Chicken Rice	Swift & Co.
Boxed Cheesecake Mix	Jello Brand Cheesecake	General Foods
Boxed Whipped Topping	Dream Whip Whipped Topping Mix	
Cake Frosting	Betty Crocker Deluxe Frosting-Milk Chocolate, Dark Dutch Fudge	General Mills
	Lite Frosting Mix-Vanilla, Chocolate	
Cake Mix	Betty Crocker Stir 'n Frost-Chocolate, Spice Cake/Vanilla Frosting Chocolate Fudge Cake/Vanilla Frosting	
	Pillsbury No Bakes-Creamy Cheesecake w/Sour Cream Topping	Pillsbury
Cookie Mix	Betty Crocker Chocolate Chip Big Batch Cookie Mix, Oatmeal Big Batch Cookie Mix	General Mills
Brownie Mix	Betty Crocker Fudge Brownie Mix	
Pie Crust	Betty Crocker Pie Crust Sticks	
Donut Mix	Spoon 'n Fry Donut Batter Mix	The Golden Dipt. Co. Millstadt
Bread Mix	Ye Olde Tyme Yellow Meal Corn Bread Mix, White Meal Corn Bread Mix, Hush Puppy Mix	Old Tyme Foods Inc., Dallas
	Light Crust Cracklin' Corn Bread Mix Artificial Bacon Flavor, Plain, White	Burris Milling Dept., Cargill, Ind., Saginaw, Texas
Biscuit Mix	Pioneer All Purpose Buttermilk Biscuit Mix, Biscuit Mix	Pioneer Flour Mills, San Antonio
Pancake Mix	Hungry Jack Complete Buttermilk Pancake Mix	Pillsbury
Boxed Potatoes	Betty Crocker Scalloped Potatoes	General Mills
Boxed Dinners	Hamburger Helper-Cheeseburger Macaroni Tuna Helper-Creamy Noodles 'n Tuna, Cheese Sauce n' Tuna	
Sauce Mix	Durkee Sour Cream Sauce Mix	Durkee Famous Foods
Prepared Sauces	Heinz Homestyle Gravy-Chicken	H. J. Heinz Co.

PRODUCT GROUP	BRAND NAME	MANUFACTURER
Prepared Pastries	Mrs. Baird's Cinnamon Rolls, Deluxe Pecan Rolls, Butter Rings, Butter Cups Filled, Chocolate Cups Filled, Pound Cake, Short Cake Cups	Mrs. Baird's Bakery, Ft. Worth
	Hostess Suzy-Q's—Banana, Chocolate Twinkies	ITT Continental Baking Co.
Cocoa Mix	Food Club Hot Cocoa Mix	Dist. by Topco Assoc.
	Carnation Instant Hot Cocoa Mix w/ Marshmallows	Carnation
Coffee	International Coffees-Orange Cappuccino, Cafè Francais, Suisse Mocha, Cafè Vienna, Irish Mocha Mint	General Foods
Dietetic Whipped Topping	D-Zerta Low Calorie Whipped Topping Mix	
Dietetic Meal Bars	Slender Diet Meal Bars-Chocolate, Chocolate Peanut Butter, Vanilla, Cinnamon	Carnation
Dietetic Pudding	Sego Spoon-Up-Chocolate, Vanilla, Chocolate Fudge	Pet, Inc.
Dietetic Drinks	Slender-Vanilla, Chocolate Malt, Chocolate Fudge	Carnation
Dietetic Cookies	Figurines-Caramel Nut, Vanilla, Double Chocolate, Chocolate Mint, Chocolate, Chocolate Caramel	Pillsbury
	Metracal Cookies-Cinnamon, Chocolate, Lemon	The Drackett Products Co. Cincinnati Licensee, Mead Johnson
Powdered Non-Dairy Creamer	Coffee Mate Non-Dairy Creamer	Carnation
	Food Club Non-Dairy Creamer	Dist. by Topco Assoc.
	Cremora	Borden
Breakfast Drinks	Carnation Instant Breakfast-Chocolate, Chocolate Malt, Artificial Egg Nog	Carnation
Breakfast Bars	Carnation Breakfast Bar-Chocolate Chip, Chocolate Crunch, Almond Crunch	
Dog Food	Ken-L Ration Special Cuts	Quaker Oats
	Puppy Chow	Ralston Purina
Cat Food	Good Mews-Tuna, Chicken & Egg Flavors	
	Special Dinners from Purina-Beef Flavor, Tuna 'n Shrimp, Dairy Dinner, Sea Nip Dinner	
Liquor	Heublein Brandy Alexander, Pink Squirrel, Grasshopper, Strawberry Colada, Pina Colada	Heublein
	Hereford's Cows-Strawberry, Mocha, Banana, Coconut Chocolate Mint, French Vanilla Amaretto	Malcolm Hereford Ltd., Hartford, Ct.

PRODUCT GROUP	BRAND NAME	MANUFACTURER
Margarine	Squeeze Parkay Margarine Parkay-Stick, Soft Whipped Parkay-Stick, Tub Whipped Miracle-Stick, Tub	Kraft
	Whipped Imperial-Tub	Lever Brothers
	Blue Bonnet-Stick Whipped Blue Bonnet-Stick, Soft	Standard Brands
Refrigerated Pastries	Cinnamon Rolls w/ Icing Cinnamon Raisin Danish Rolls w/ Icing, Hungary Jack Butter Tastin' Cinnamon Rolls	Pillsbury
Refrigerated Dips	Kraft Avocado (Guacamole) Dip Kraft Green Onion Dip, Garlic, Jalapeno Pepper	Kraft
	Tom Thumb Jalapeno Chip Dip, Chive-Onion, Bacon-Onion	Cullum Co., Dallas, Tx.
	Rod's Avocado Dip, Bacon Avocado Dip, French Onion Avocado Dip	Rod's Food Products
Refrigerated Dressings	IMO Dressing for Foods	IMO Food Products
	Lady Lee Sour Dressing	Dist. by Markets, Inc., San Leandro, Calif.
Cheese	Imitation Pasteurized Process Cheese Spread	Dist. by Value Time, Div. Topco Assoc.
	Country Meadow American Cheese Substitute	Borden
	Golden Image American Flavored Slices	Kraft
	New Age Sandwich Slices	Anderson Clayton Foods
Aerosol Dessert Topping	Blossom Time Dessert Topping	Dist. by Safeway
	Lucky Whip Dessert Topping	Lever Brothers
Milkshake	Frosted - Chocolate	Borden
Frozen Non-Dairy Creamers	Poly Pert Non-Dairy Creamer	Mitchell Foods
	Top Frost Non-Dairy Creamer	Dist. by Topco Assoc.
Frozen Whipped Topping	Birds Eye Cool Whip Non-Dairy Whipped Topping	General Foods
	Top Frost Non-Dairy Whipped Topping	Dist. by Topco Assoc.
	Party Whip Non-Dairy Whipped Topping.	Dist. by Safeway
Frozen Pies	Bel-Air Banana Cream Pie, Lemon, Neopolitan, Coconut, Chocolate	Dist. by Safeway
	Morton Great Little Desserts-Coconut Cream, Chocolate Cream Pie	ITT Continental Baking Co.
	Pet Ritz Lemon Cream Pie	Pet, Inc.
	Johnston's Coconut Cream Pie	Johnston's Pie Co., Torrance, Ca.
	Mrs. Smith's Light Pie-Coconut	Mrs. Smith's Pie Co., Pottstown, Pa.

PRODUCT GROUP	BRAND NAME	MANUFACTURER
Frozen Desserts	Rich's Chocolate Eclairs	Rich's
Frozen Cookies	Mrs. Goodcookie-Chocolate Chocolate Chip Cookies, Sugar	OreIda Foods
Frozen Dinners	Banquet Lasagna with Meat Sauce, Cheese Manicotti w/ Meat Sauce, Meat Loaf Dinner, Mexican Style Combination Dinner	Banquet Foods Corp., St. Louis, Mo.
	Patio Beef Enchiladas, Fiesta Dinner, Cheese Enchilada Dinner, Beef Enchilada Dinner, Beef Enchiladas Chili 'n Bean	BJR Foods
	Swanson's Salisbury Steak Dinner, Hungary Man Salisbury Steak Dinner, Noodles & Chicken Dinner	Campbell Soup
Frozen Vegetables	Birds Eye Broccoli Spears w/ Hollandaise Sauce	General Foods
	Stouffer's Noodles Romanoff Side Dish	Stouffer Foods
Frozen Oriental	Chun King Meat & Shrimp Egg Rolls	RJR Foods
Frozen Pizza	Jeno's Pizza Snacks, Canadian Style Bacon, Hamburger, Sausage, Pepperoni	Jeno Foods
	Totino's Extra Pepperoni Pizza, Combination	Pillsbury
Frozen Breakfast	Morningstar Farms Cholesterol Free Breakfast Patties, Links, Egg Sub.	Morningstar Farms, Inc.
	Egg Beaters	Standard Brands
	Everfresh 4 Cinnamon Buns, 12 Glazed Doughnuts, 18 Mini Sugar n'Spice Doughnuts	Tennessee Doughnut Corp.
	Swanson French Toast w/ Sausages, Scrambled Eggs & Sausage w/ Hash Brown Potatoes, Pancakes w/ Sausages	Campbell Soup
Frozen Lunch	Morningstar Farms Cholesterol Free Luncheon Slices	Morningstar Farms, Inc.
Frozen Rolls	Bridgford Cloverleaf Rolls, Parkerhouse Style Rolls, Honey Wheat Bread Dough	Bridgford Foods Corp., Anaheim

Appendix: List of Consumer Products Containing Casein

1. Infant formula baby foods
2. Bakery products and related mixes
3. Breakfast drinks
4. Cakes
5. Canned and frozen meat dinners
6. Cereals
7. Cheese Substitutes
8. Confections
9. Cosmetics
10. Desserts
11. Dietary supplements
12. Diet Beverages
13. Wafers
14. Dips
15. Donuts
16. Geriatric foods
17. Gravies
18. Hot chocolate mixes
19. Imitation milks
20. Instant coffee mixes and breakfast drinks
21. Intravenous feeding preparations
22. Luncheon loaves
23. Meal bars
24. Non-dairy coffee creamers and whipped toppings
25. Pet foods
26. Pharmaceutical preparations
27. Pies
28. Potato chips
29. Processed meat products
30. Puddings
31. Sauces
32. Snacks
33. Soups
34. Sour Creams

CASEIN IS NOT PRODUCED IN THE UNITED STATES, AND THEREFORE MUST BE IMPORTED. RESTRICTION OF THE IMPORTATION OF CASEIN INTO THIS COUNTRY WILL HAVE SERIOUS AND PROFOUNDLY NEGATIVE EFFECTS ON THE U.S. FOOD INDUSTRY.

SPECIAL INTEREST GROUPS IN THIS COUNTRY ARE ATTEMPTING TO PROMOTE THE FALSE AND MISLEADING IMPRESSION THAT CASEIN IMPORTATION IS A THREAT TO THE U.S. DAIRY INDUSTRY.

THE FACTS REVEAL THE FALSEHOOD. FOR THE FIVE YEAR PERIOD 1973 THROUGH 1977, THE U.S. DAIRY INDUSTRY PRODUCED AN AVERAGE OF 118 BILLION POUNDS OF MILK PER YEAR.[1] DURING THE SAME PERIOD, THE U.S. IMPORTED AN AVERAGE OF 108 MILLION POUNDS OF CASEIN PER YEAR.[2] IMPORTED CASEIN AMOUNTED TO *LESS THAN* 92/1000 OF 1% (659/1000 OF 1% ON A TOTAL SOLIDS BASIS) OF THE TOTAL MILK PRODUCED IN THE UNITED STATES OF AMERICA.

THIS IS HARDLY A THREAT. IT IS VITAL THAT CASEIN IMPORTS BE AVAILABLE AND *FREE* FROM ANY INTERFERENCE, INTERRUPTIONS OR RESTRICTIONS.

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[1] U.S. Department of Agriculture, Foreign Agricultural Service, *Foreign Agriculture Circular*, September, 1977, p. 5 and March, 1978, p. 10.

[2] U.S. Department of Agriculture, Economics, Statistics and Cooperative Services, *Dairy Situation*, July, 1976, p. 25 and March, 1978, p. 26.

COMMITTEE TO ASSURE THE AVAILABILITY OF CASEIN
SUITE 670
1700 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20006

essential to the U.S. consumer - nutritious

- one of the most complete and highest quality proteins known, containing all the amino acids essential to the human diet.
- the principal protein in milk, comprising over 80% of its total protein content.
- serves as the U.S. Government's standard against which all other protein is measured.
- an isolated and essentially pure protein.

important

- an integral part of the American diet, used in over 400 consumer packaged food products on the market today.
- saves the consumer money and provides an economical source of high quality nutrition.
- a key ingredient in baby foods, bakery products and related mixes, breakfast drinks, cakes, canned and frozen meat dinners, cereals, cheese substitutes, confections, cosmetics, desserts, dietary supplements, diet beverages, wafers, dips, donuts, geriatric foods, gravies, hot chocolate mixes, imitation milks, instant coffee mixes and breakfast drinks, intravenous feeding preparations, luncheon loaves, meal bars, non dairy coffee creamers and whipped toppings, pet foods, pharmaceutical preparations, pies, potato chips, processed meat products, puddings, sauces, snacks, soups and sour creams.
- many physicians and dietitians recommend foods containing casein for cholesterol free diets.
- to dairy product producers and the meat industry. It is used in the formulation of superior quality calf nursing products.

familiar

- in its most recognizable form, casein is cottage cheese from which the fat and moisture have been removed.
- is the principal protein constituent of all cheeses.
- a product of Mother Nature as much as any other processed milk product.
- not new, and has been widely used throughout the world for over 500 years.

unique

- since casein is made from milk, it is an animal-derived protein having very special nutritional and functional properties . . . No other protein concentrated from vegetable or other animal sources has these special properties.

STATEMENT ON BEHALF OF
NEW ZEALAND MILK PRODUCTS, INC.
THE HOUSE AGRICULTURE SUB-COMMITTEE ON
DAIRY, POULTRY, AND LIVESTOCK

June 5, 1985

Mr. Chairman, members of the Committee, I am C.W. McMillan, Government Affairs Advisor to the law firm of Bronz & Farrell, counsel to New Zealand Milk Products, Inc., of Petaluma, California. New Zealand Milk Products is a U.S. corporation, wholly owned by the New Zealand Dairy Board, which was founded some fifteen years ago to market in the U.S. the whole range of dairy products manufactured in New Zealand, which are allowed access to this market. The New Zealand Dairy Board is a producer's cooperative organization representing the dairy farmers of New Zealand. While the Board has responsibilities in the administration of the dairy manufacturing industry, its principal function is the export of dairy products to world markets.

As you are probably aware, dairy farming is one of the basic sectors of the New Zealand economy - an economy which depends heavily on the export of livestock products. The manufacture of dairy products in New Zealand absorbs around 90% of the total milk production, and about 80% of the manufactured output is exported each season. The New

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Zealand Dairy Board is the world's major commercial exporter of dairy products and New Zealand is dependant on dairy exports to a greater degree than any other country. As the central marketing organization, the New Zealand Dairy Board last year exported more than a billion dollars worth of manufactured dairy products to world markets.

Because of these considerations the Board, and indeed all of New Zealand, are greatly impacted by the agricultural protectionism of the countries to which she exports. It is this concern that leads to our appearance before you today in your consideration of H.R. 1629 which would impose quotas on casein and other milk protein products.

With respect to casein, imports have been the subject of three major (and numerous lesser) studies in the last four years - all of which have found that their impact is negligible. Most recently, in June of 1982, the ITC found under Section 22 of the Agricultural Adjustment Act that casein was not being imported:

> "under such conditions or in such quantities as render or tend to render ineffective, or materially interfere with, the price support program for milk . . ." Casein . . . (Investigation No. 22-44) USITC Publ. 1217, 1982, P.1.

Having thus failed to demonstrate to any objective agency of the United States government any need for such a quota, the domestic industry continues to seek legislated quotas.

The domestic industry's request is, to say the least, unusual. They are seeking a quota on a product they don't even make, so naturally they have to weave a fabric of theories of indirect impact, but it simply does not hold water. In 1979 the International Trade Commission conducted a study of casein and its impact on the domestic dairy industry. Their conclusions there, which were reaffirmed in their 1981 Section 22 investigation and which continue to be true today, could not be more clearly stated nor more supportive of the contentions that we advance here and have advanced during the numerous public hearings that have been held on this issue in the past. In brief, the ITC found that:

> "The data collected during the course of the Commission's investigation indicate virtually no relationship between imports of casein and mixtures of casein and purchases of nonfat dry milk under the price-support program in recent years. Likewise, no clear relationship is apparent between imports and domestic production or consumption of nonfat dry milk. Additionally, no clear relationship is apparent between imports of casein and mixtures of casein and other forms of domestic dairy production." USITC Pub.1025, p.4, December 1979.

As the ITC points out, New Zealand is by far the largest supplier of casein to the U.S. market. Casein is produced on a regular and continuing year-round basis in New Zealand in plants dedicated to its production and representing substantial capital investment. It is not produced as a surplus product, but is part of the normal mix of dairy products produced in New Zealand to assure the maximum return possible to the New Zealand dairy farmer. It is priced accordingly. That is, the price of casein is established at a level that will assure that the net back return to New Zealand will equal that for nonfat dry milk or any other skim milk product. As it is economically impossible for any country to subsidize a major branch of its economy, so it is impossible for New Zealand to subsidize its dairy industry, and it does not - New Zealand's ability to compete worldwide is founded in the lower cost basis provided by her favorable climate and efficiency.

The volume of New Zealand's casein output is also relatively stable, first because total milk production is established by the ability to market the products produced from the fat portion of the milk, and second, because the dairy industry must spread the risk inherent in international dairy trade in order to achieve the highest practicable prices for its producers whose livelihood directly depends upon export realizations. New Zealand is committed not to volume growth so much as to careful and sustained technological advance in casein production for export. This has required a continuing heavy investment, both in manufacturing plants and in the development of technological know-how - imported casein is now available from New Zealand in over 40 major specifications, many of which are divided into subgroups to meet particular customer requirements. This technically advanced and highly diversified group of products is the result of years of research into the application of casein.

Any notion that casein is simply a substitute for nonfat dry milk in its food and feed applications has been completely dispelled by the ITC in their reports. They describe both the functional and nutritional characteristics of casein which are not shared by nonfat dry milk and uses for which nonfat dry milk could not be a substitute. In brief, these functional characteristics include the ability of casein to aid in gel formation, stabilize a foam or whip, increase viscosity, or hold fat in a stable emulsion without phase separation. According to the ITC, these properties allow for the use of casein in such food products as coffee whiteners, frozen desserts and whipped toppings. Nutritionally, the ITC reports that it is virtually uncontested that milk products, including nonfat dry milk, could not replace casein in a number of nutritional formulas, particularly those for persons intolerant to lactose or intact proteins.

The ITC also recognized the substantial factor of consumer preferences in the choice of many casein containing products, disabusing any notion that price is the only criteria in the use of casein in manufactured food products. Casein is a product which allows the consumer this freedom of choice, it is a product which contributes to the economic well being of the processed food industry, but it is not a product which displaces nonfat dry milk.

Likewise, other milk protein product imports, such as whey protein concentrates and lactalbumins, are designed as functional food proteins. Whey protein concentrates are used in special dietary preparations and nutritional supplements. They are ideal proteins for the preparation of infant formulae which simulate the specific characteristics of mother's milk.

Lactalbumins are used for fortification of a wide variety of cereal goods which generally contain lower quality proteins, such as breakfast cereals, pasta, cookies and pizza crust.

U.S. produced whey protein concentrates normally have a protein concentration of 34-35% and are used primarily as milk replacers and fillers. These lower protein products are not incorporated in foods to utilize the functional characteristics of the protein that they contain, whereas the New Zealand produced 55% or higher protein products have a much wider and nutritionally more flexible utilization.

Finally, the United States' international obligations under the GATT prohibit the restriction of trade in products unless certain agreed upon conditions are met. In the case of dairy products the U.S. was granted a waiver by the GATT for Section 22 of the Agricultural Adjustment Act of 1933. In seeking that waiver the U.S. made a statement which set forth the conditions under which restrictions could be imposed. In particular, paragraph (c) of that statement reads as follows:

> "that import restrictions can be imposed under Section 22 only when the President finds that imports are having or are practically certain to have the effects for which Section 22 action is required, and then, except as provided by law in emergency situations, only after investigation by the U.S. Tariff Commission (now the U.S. International Trade Commission), after due notice and opportunity have been given to interested parties;" GATT, 3rd Supp. BISD 32 (1955).

Thus, for restrictions to be imposed, either directly or indirectly, a Presidential determination must be made, a condition clearly not met by H.R. 1629. To couch such legislation in Section 22 language does nothing to meet the

U.S.'s obligations under the waiver.

The New Zealand dairy industry has committed, over many years, a considerable technical and commercial investment in the development of a major part of the United States market for casein and other milk protein products, and would be seriously damaged if there were any restrictions imposed on this trade. It is becoming increasingly obvious that any country's health is determined to a great extent by the health of its trading partners. The casein/milk protein trade is a perfect example. These products are the only New Zealand dairy exports to the United States not currently subject to protectionist quotas. Restriction of this legitimate business would reflect adversely on the United States' international trade posture, especially as no other industrialized country has seen the need to impose quantitative import restrictions on these products. It would also deprive United States end users and consumers of valuable products which serve them well economically and nutritionally - and so deprive them without any benefit accruing to a domestic industry.

STATEMENT OF TESTIMONY

by

ROBERT W. KASTENMEIER
Member of Congress

Mister Chairman, members of the subcommittee, I want to thank you for this opportunity to testify as a cosponsor in support of Congressman Rose's bill to control the importation of casein products into this country.

I am not, by nature, an individual who likes to erect barriers to international trade. I have long heard the theories of free-trade advocates and I have agreed with many of their arguments. I have supported free trade.

There comes a time, however, when the idealism of economic theory confronts the harsh realities of the marketplace. For American dairy farmers the harsh reality is that they are being asked to endure an economic crunch that is so severe that they can no longer be expected to tolerate the negative impact of casein imports . . . no matter how "insignificant" the gentlemen in pin-striped suits judge that impact to be.

You will be receiving expert testimony today by a long list of economists and dairy experts who will statistically evaluate the size and nature of the impact of casein imports on our dairy industry and our dairy program. I would like to concentrate on some of the political aspects of the subject at hand.

The root of the problem with casein lies in the fact that improving food technologies completely revolutionized the potential uses of this milk protein long after our national dairy policies were enacted. No one denies that casein imports are growing from year to year. No one denies that its predominant use is as a food product. No one denies that at least a sizeable portion of casein usage in this country could be replaced with domestic nonfat dry milk, or even domestic casein.

In 1979, the ITC itself acknowledged that as much as 76 percent of the reported usage of casein and casein mixtures may have displaced nonfat dry milk in 1978. In their 1979 report, the ITC further acknowledged that "casein does displace some domestic milk products."

In June of 1981, the U.S. Department of Agriculture reported that casein imports cost the Commodity Credit Corporation $300 million in 1980 because 333 million pounds of nonfat dry milk were displaced by casein. This amounts to 20 percent of the cost of the price support program in that year. Some might consider that impact to be insignificant. I consider it to be an impact and a significant impact. And, in light of later developments in the price support program and the terrible cuts that dairy farmers have had to assume, the impact seems large enough to warrant a response.

The threat to the dairy industry is manifest. We are faced with a situation where the United States government is subsidizing foreign milk producers to the detriment of American milk producers. No one denies that it is happening. Instead, we quibble over how much of the casein displaces how much of the nonfat dry milk or whether our domestic industry could ever produce casein at competitive prices. We nitpick over the size of the impact on our industry and argue over how large an impact has to be before it is considered a significant impact.

One thing has become patently clear . . . there will be no resolution of this problem if it is left in the hands of the ITC or the administration generally. The nitpickers will always win in that arena. There is a bias there against taking any protective measures. Studies are aimed at minimizing the impact and discouraging action.

No, if we are ever to see any action against casein imports, it will be up to us in the Congress to take the initiative. Therefore, I urge my colleagues who serve on this subcommittee to report HR 1629 out to the full committee and then to the House floor. Let's be done with the footdragging and take action to protect our dairy farmers.

American dairy farmers are taking the brunt of spending cuts. The prices they receive for their milk are falling. The pressure is on to dismantle their dairy program. The Secretary of Agriculture transforms fifty cent cuts in their support price into seventy cent cuts. Another fifty cent cut is imminent.

Let's do this one thing for dairy farmers. Let's give them back a fair shot at the domestic market that they have lost to foreign milk producers. Let's protect them against further erosion of their domestic market. Let's pass this legislation and end the quibbling.

STATEMENT BY REP. DAVID R. OBEY

PRESENTED TO THE SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY

HOUSE AGRICULTURE COMMITTEE

JUNE 5, 1985

Mr. Chairman, members of the subcommittee, I am very pleased that you are holding this hearing today on legislation to limit imports of foreign milk protein products, specifically including casein.

I am an original cosponsor of the bill, H.R. 1629, introduced by Representative Rose, to permanently restrict casein imports. This bill would limit annual casein imports to 50 percent of the average yearly amounts that have come in over the past five years. The plan would allow casein imports where there are no available substitutes or in cases in which domestic dairy products can not be used.

I certainly recognize that restricting casein imports will not solve all of the problems dairy farmers face nor eliminate the entire cost of the milk support program. But to allow the U.S. to continue to be flooded with an unlimited amount of imported casein is simply unfair to both dairy farmers and taxpayers.

As you know, casein is imported into the U.S. without any quota restrictions mostly from New Zealand, Austrailia, and the Europeon Economic Community. It is used to produce a wide range of products, but it mainly goes into making imitation cheeses, non-dairy creamers and toppings, and other fake dairy products.

Casein imports have steadily increased over the past decade -- from 113 million pounds in 1973 to nearly 160 million pounds in 1983 -- and they skyrocketed to a record 192 million pounds last year.

Most of the casein imported into this country is used in food products for which surplus domestic dairy products, primarily non-fat dry milk, could have been used.

In 1981, the U.S. Department of Agriculture estimated that it cost about $300 million to purchase surplus domestic dairy products displaced by casein. In 1983, casein imports added $329 million to the cost of the milk support program.

The legislation you are considering today is designed to cut the cost of the milk price support program and reduce the surplus of dairy products that must be bought up by the government. At a time when dairy farmers are struggling to survive and taxpayers want a less costly alternative to the current dairy program, it makes no sense to continue to allow unlimited amounts of casein to flood our markets.

I urge you to support dairy farmers and protect taxpayers by favorably reporting a bill that effectively controls the excessive amount of casein imports now flooding into this country.

New York State Senate Committee on
Agriculture
Senator Steve Riford, Chairman
Room 944, Legislative Office Building
Albany, N.Y. 12247 - (518) 455-3264

STATEMENT TO THE HOUSE SUBCOMMITTEE ON DAIRY, LIVESTOCK AND POULTRY

BY

L. S. RIFORD, JR.

Chairman, Senate Committee on Agriculture

Congressman Coelho, members of the House Subcommittee on Dairy, Livestock and Poultry, Ladies and Gentlemen; as Chairman of the New York State Senate Committee on Agriculture and as a former dairy farmer, milk dealer and milk retailer, I am pleased to have the privilege of commenting on H.R. 1629, introduced by Congressman Rose and others.

Agriculture is our state's largest industry. Dairy farming is the primary enterprise, with milk sales accounting for three-fifths of farm cash receipts. Our state is third in milk production in the United States. Our dairy farms are small - averaging about 60 head milk cows and are operated almost entirely by the farmer and his family. Soils, climate and topography limit his options almost entirely to dairy. During the last 5 years, the income that the producer and his family have received for their labor has drastically declined as prices have remained stable or fell, and costs have increased.

-CONTINUED-

WE SEE NO REASON WHY OUR DAIRY FARMERS, SO IMPORTANT TO THE ECONOMY OF THE STATE, AND FOR THAT MATTER, DAIRY FARMERS ANYWHERE IN THE COUNTRY SHOULD BE PUNISHED FOR EVENTS BEYOND THEIR CONTROL OR BY MISTAKEN POLICIES OF THE PAST.

DAIRYING REQUIRES A HEAVY INVESTMENT. IN AND OUT OF BUSINESS IS A VERY SLOW PROCESS. A PRICE AS LOW AS $10 A HUNDREDWEIGHT WOULD ACHIEVE ONLY A VERY GRADUAL ADJUSTMENT IN SUPPLY. SLOWLY BUT SURELY THOUSANDS OF HARD WORKING DAIRY FARM FAMILIES WOULD BE PUT OUT OF BUSINESS, FOLLOWED BY A PERIOD OF SCARCITY OF MILK AND HIGHER PRICES TO CONSUMERS. THE BOOM AND BUST CYCLE WOULD BE STARTED AGAIN. THIS HARDLY WOULD BE IN THE PUBLIC INTEREST. ON THE OTHER HAND, THE DAIRY PRICE PROGRAM, WITH ITS SUBSTANTIAL BENEFITS TO BOTH FARMERS AND CONSUMERS, HAS COME UNDER SEVERE CRITICISM BECAUSE OF ITS COST. DAIRY FARMERS ARE TOLD IF SOCIAL SECURITY AND NATIONAL DEFENSE HAVE TO BE CUT, WHAT CHANCE IS THERE TO CONTINUE THE DAIRY SUPPORT PROGRAM.

YET THERE WOULD SEEM, HOWEVER, A RELATIVELY SIMPLE SOLUTION TO BOTH THE TAXPAYERS' AND THE DAIRYMEN'S PROBLEM. WE MUST NO LONGER MAINTAIN THE FICTION THAT MASSIVE IMPORTS OF CASEIN AND OTHER MILK PROTEINS, SUCH AS WE HAVE SEEN IN THE LAST YEAR, DO NOT INTERFERE WITH DOMESTIC PRICE SUPPORT PROGRAMS AND SERIOUSLY AFFECT DAIRY FARMERS. FOR THIS REASON, WE ENTHUSIASTICALLY ENDORSE THE BILL THAT CONGRESSMAN ROSE HAS INTRODUCED.

-CONTINUED-

In 1984, the Commodity Credit Corporation paid approximately $1.5 billion for the 8.5 billion pounds of the milk equivalent of surplus dairy products purchased, but at the same time the equivalent of 6.3 billion pounds of skim milk was imported as casein and other milk proteins. Much of the casein comes from European community countries where production is heavily subsidized. Consumers help pay for the subsidies by our large imports of casein, and then consumers, that is, the taxpayers pay for the 480 million pounds of non fat milk solids purchased by the CCC which was displaced by the 193 million pounds of casein imported.

Various estimates are that 50 to 60 billion pounds of milk have been displaced by imitations that all too often are able to masquerade as the real thing. Casein is the principal ingredient of such products. Cream products, ice cream, and cheese are current targets. About 30 percent of the milk supply of our state - about 35 percent of the milk solids - are used in cheese, especially Italian cheese. Cheese has been subjected to unfair competition from the artificial product, produced from imported casein, now dumped upon our domestic market at will.

The National Conference of State Legislatures' meeting in Washington in late February passed a resolution urging the Food and Drug Administration to classify casein as a dairy product which indeed it is, rather than a chemical.

-CONTINUED-

The New York State Senate adopted a similar resolution in March 1985 urging Congress to seek legislation placing import quotas on casein, and urging the Food and Drug Administration to take all necessary action to reclassify casein as a dairy product, making it subject to dairy import quotas and fees. Copies of the resolution were sent to the Food and Drug Commissioner and to the New York Congressional Delegation. I have attached a copy to my statement.

Non fat milk solids would likely be interchangeable with at least one half of the casein used for non industrial products, if prices were comparable.

Reduction of imports of milk protein products to one half the 1979-1983 base would not prevent use of casein in foods where necessary for nutrition or functional purposes. If milk protein products are restricted, domestic protein could be available at prices comparable to domestic prices of non fat milk solids. Unlimited milk protein imports at a fraction of domestic prices make it economically impossible to manufacture casein in this country. The United States has had chronic dairy surpluses, not shortages, and increased domestic production of milk protein products would assure domestic users an ample supply. We believe the enactment of Congressman Rose's bill would be most beneficial to dairy farmers, reduce the cost of the dairy program, and in the long run, benefit consumers.

Congressman Coelho, on behalf of the New York State Senate and our dairy farmers, let me express our appreciation to you for holding this hearing. I hope the information here will prove helpful to your deliberations.

1098

STATE OF NEW YORK

91066-02-5

The Legislature

In Senate ~ In Assembly

SENATE RESOLUTION urging the United States Congress to seek legislation placing import quotas on casein and the reclassification by the FDA of casein as a dairy product making it subject to dairy import rules and fees

Introduced by Sen. RIFORD

Introduced by M. of A.

[illegible]

[illegible]

RS Riford

[illegible]

91066-02-5

SEN. RIFORD LBDC(P) 3/21/85 JOD

WHEREAS, The United States annually imports the equivalent of six billion pounds of milk in the form of casein; and

WHEREAS, Casein is a milk protein used extensively in the production of imitation dairy products, particularly imitation cheese; and

WHEREAS, Casein is presently classified by the federal government as a chemical and as such, is not subject to dairy import quotas; and

WHEREAS, As the main ingredient of cheese substitutes and other imitation dairy products, casein competes directly with real milk for use in convenience foods such as frozen pizza; and

WHEREAS, New York dairy farmers cannot compete with cheap, foreign subsidized imitations that are passed off to the consumer as dairy substitutes; now, therefore, be it

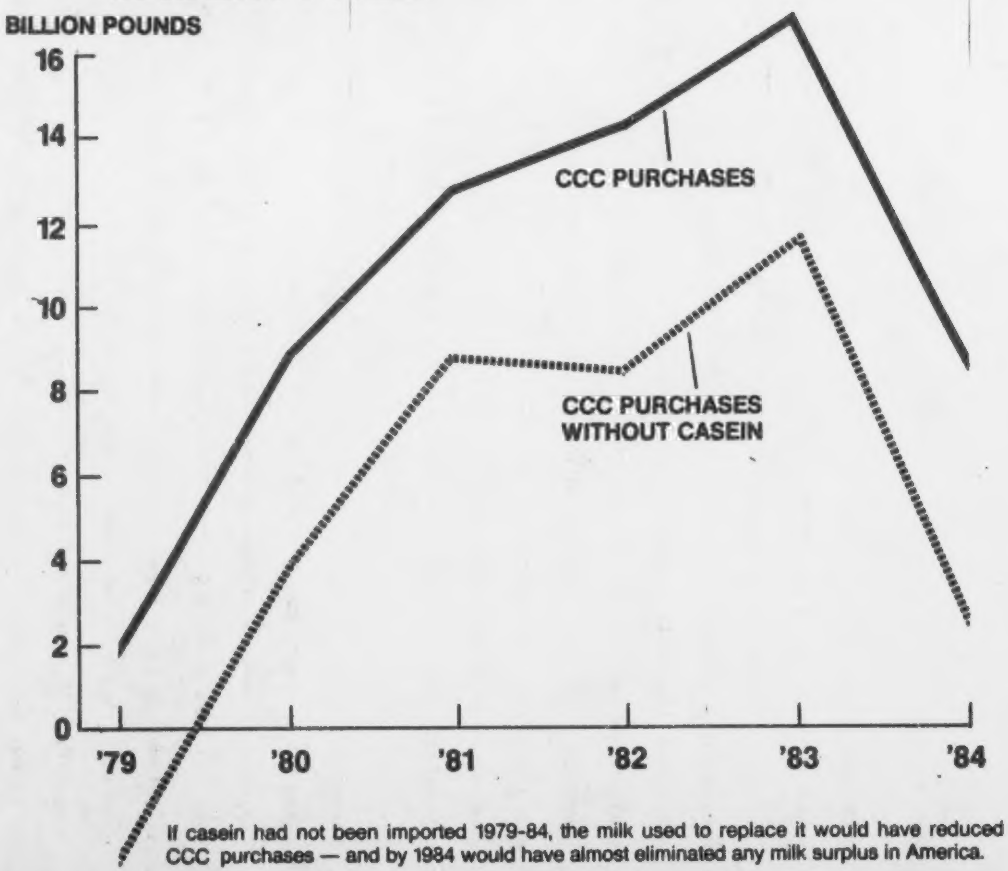
RESOLVED, That the Senate of the State of New York urges the United States Congress to seek legislation placing import quotas on casein and the FDA to take all the necessary action to reclassify casein as a dairy product, making it subject to dairy import rules and fees, enabling real dairy cheese to compete equitably with imitation cheese; and be it further

RESOLVED, That copies of this Resolution, suitably engrossed, be transmitted to Arthur Hull Hayes, Jr., Commissioner of the United States Food and Drug Administration and to each member of the Congressional Delegation from the State of New York.

RESOSE

SHORT TITLE: Urging the reclassification of casein as a dairy product

"CASEIN FREE"



If casein had not been imported 1979-84, the milk used to replace it would have reduced CCC purchases — and by 1984 would have almost eliminated any milk surplus in America.

STATEMENT

on behalf of the

WISCONSIN CHEESE MAKERS ASSOCIATION

INTRODUCTION

The Wisconsin Cheese Makers Association is made up of 175 manufacturers and wholesalers of cheese and butter located in twelve states. For well over ten years, the WCMA has struggled with the question of casein imports and the products produced from them.

In 1978, the WCMA petitioned the USDA for the clear labeling of foods, primarily frozen pizza, containing imitation cheese made from vegetable fat and imported casein.

Seeing no action from the USDA, the WCMA appeared at a 1981 International Trade Commission hearing the purpose of which was to determine if casein imports were materially interfering with domestic industry. The ITC, we believe quite erroneously, found there was no material interference.

In early 1984, finally acting on the WCMA's 1978 petition, the USDA did promulgate proposed regulations on labeling frozen foods containing imitation cheese. In June of 1985, the industry and consumers of America are still waiting for a final regulation to be put forth.

Now there are several bills before Congress to limit casein imports. And there are several good reasons why such a bill should be either passed as legislation on its own or made part of the 1985 Farm Bill.

THE DAIRY CRISIS

In the fall of 1981, when the ITC casein hearing was held, the country was just starting to realize that dairy product supply was far out stripping demand. Since that time, the industry has seen surpluses climb to 10 percent over demand.

During that same time casein imports increased 50 percent to 192.3 million pounds. Even more dramatic is the fact the total dairy imports, on a milkfat basis, increased 30 percent.

Milk production in the United States has increased from 132.8 billion pounds in 1981 to the 1983 high of 139.7 billion pounds, about five (5) percent. Dairy imports, on the other hand, increased eighteen (18) percent. In 1984, when American farmers were reducing production three (3) percent, casein imports increased 21 percent, total dairy imports 5 percent.

While American farmers decreased milk production 4.2 billion pounds (meaning the government purchases were reduced the equivalent of 415.8 million pounds of cheese), imports of casein increased 32.7 million pounds (which converts to 130.8 million pounds of imitation cheese). Since imitation cheese displaces real cheese, the net effect was to partially negate the effect on CCC purchases of American's milk production reduction.

Combining the imitation cheese as a result of increased casein imports with the increase in cheese imports of 19.8 million pounds, means that the milk equivalent of **1.5 billion additional pounds** were injected into the dairy supply-demand equation in 1984 by imports increases.

There is a surplus situation in this country, that cannot be denied. However, the above data clearly indicates that the American farmer and cheesemaker have not been the sole cause of the problem. Increases in imports of casein and other dairy products have also contributed to the situation we find ourselves in.

A FAIR SOLUTION

When the U.S. auto industry got into trouble, as well as with other industries, the government acted to help the situation by intervening on behalf of those industries with countries exporting similar goods to the United States.

While H.R. 1629 does this in part, the WCMA would suggest a solution that addresses not only the impact of casein imports on the dairy industry, but all dairy imports as well.

Therefore, the House Agriculture Dairy Subcommittee should strongly consider relating all dairy imports to domestic production and consumption rather than simply cutting import quantities a set amount. This could be accomplished in the 1985 Farm Bill and would apply to all imports that impact on the utilization of domestically produced milk when government purchases exceed the trigger level for support price cuts to take place.

Regarding casein specifically, the WCMA calls on the Subcommittee to continue their efforts to get the USDA and Office of Management and Budget to promulgate the regulation regarding the labeling of foods contain imitation cheese or cheese substitutes. The users of these artificial products in their own statement on the regulation acknowledge that if the consumer knows the product contains fake cheese (made with casein primarily) they won't by it. This would be perhaps the most effective way to reduce the use and therefore importation of casein.

SUMMARY

No one can deny that imported casein, 80 percent of which is used in imitation dairy products, has displaced real dairy products made from milk produced by America's dairymen. Estimates are that four to eight percent of the natural cheese market has been taken surreptiously by imitation cheese used in foods without the consumers knowledge.

This displacement has added to the dairy surplus situation the government, the dairy industry, and taxpayers have faced and continue to face. For the Congress and the Administration to view the surplus myopically as being impacted solely by the domestic industry is to ignore a key aspect of the supply side of the supply-demand equation.

The WCMA asks, how can the burden of reducing government expenditures be placed only on American farmers and dairy plant operators? The flow of dairy imports, including casein, increases the total supply of dairy solids available to the domestic marketplace. If the objective is to reduce the supply side while trying to increase the demand side, then all suppliers should share in the reduction just as they share in the demand side increases.

Respectfully submitted on behalf of
WISCONSIN CHEESE MAKERS ASSOCIATION

JE Tillison
James E. Tillison
Executive Director

AMENDMENT TO H.R. 2100, AS REPORTED
OFFERED BY Mr. Boehlert

Page 37, after line 9, insert the following:

DOMESTIC CASEIN INDUSTRY

Sec. 215. (a) The Commodity Credit Corporation shall provide surplus stocks of nonfat dry milk of not less than one million pounds annually to individuals or entities on a bid basis.

(b) The Commodity Credit Corporation may accept bids at lower than the resale price otherwise required by law in order to promote the strengthening of the domestic casein industry.

(c) The Commodity Credit Corporation shall take appropriate action to assure that the nonfat dry milk sold by the Corporation under this section shall be used only for the manufacture of casein.

Redesignate succeeding sections in the subtitle accordingly.

GENERAL FARM BILL OF 1985
(Dairy Program)

FRIDAY, JUNE 28, 1985

House of Representatives,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Auburn, NY.

The subcommittee met, pursuant to notice, at 9:25 a.m., at the Holiday Inn, North Street, Auburn, NY, Hon. Tony Coelho (chairman of the subcommittee) presiding.

Also present: Representatives Lundine, Boehlert, Eckert, Horton, and David O'B. Martin.

Staff present: Courtney C. Pastrick.

Mr. Coelho. I am pleased to be here and I am pleased that so many of you showed for the hearing. We will begin with Congressman Horton.

STATEMENT OF HON. FRANK HORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Horton. Thank you, Mr. Chairman. I am going to open my statement by thanking you for your sincere efforts to the problems facing the dairies of our Nation, New York in particular. Under your leadership the livestock, dairy and poultry subcommittee is holding their first field hearing in upstate New York in 15 years. Over the past several weeks I have worked to organize panels to reflect the entire spectrum of New York's dairy community in essence. Today's panels uphold the most respected levels of the dairy community and know first-hand the many problems facing New York's dairymen, as well as industries dependent on a healthy dairy community.

Agriculture is New York's single largest industry. It generates over $3 billion in annual farm receipts and employs over 100,000 people. When combined with food and food processing industries, agriculture generates nearly $10 million and employs over 500,000 people. No part of our economy, no segment of our community is untouched by the efforts of the farmers and farm community. Because of the role that agriculture, and dairy in particular, plays in the economic health of New York State, we have a tremendous stake in the development of the 1985 farm bill.

Policy decisions made in Congress will have a direct and immediate impact on the livelihood of dairy interests in my district and across the State.

Today we will hear from people who will be directly affected by the 1985 farm bill. They will describe in detail the many unique aspects of New York's dairy community. I look forward to their testimony and await with interest their comments on casein, fluid milk shortages, and the dairy title of the 1985 farm bill.

I would like to focus particular attention on casein imports. I believe that discussion of the 1985 farm bill will not be complete if we do nothing to stem the rising tide of casein. In 1983, we imported the skim milk equivalent of 6.3 billion pounds of casein. At the same time, the Commodity Credit Corporation acquired 8.5 billion pounds of surplus dairy products adding $1.5 billion to the Federal deficit. Our efforts to reduce the dairy surplus are doomed to failure unless we close the door on casein. It is my hope that this problem will be resolved in the 1985 farm bill.

Mr. Chairman, once again I would like to thank you for holding this hearing. We in New York will be tremendously affected by the 1985 farm bill and we appreciate the chance to present our unique problems and opportunities to you.

Mr. Coelho. Thank you, Mr. Horton, for your comments.

Mr. Martin.

STATEMENT OF HON. DAVID O'B. MARTIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Martin. I just wanted to make a couple of comments and welcome the chairman of the Dairy Subcommittee hearing. If anybody thinks he has an easy job trying to work something out that will resolve our dairy problems across this great country and do it fairly to everyone, you have another thought coming. I know that he has been working very hard and I salute him for coming here to central New York and giving us in upstate New York and central New York the opportunity to have some input on what is going on as far as the farm bill is concerned.

We know what the progress of the farm bill is; the chairman talking about hopefully having the bill on the floor by the middle of July. I want to point out that that makes it even more important for those people who do not agree with the way the Agriculture Committee is going to come here and testify. We have legitimate differences of opinion. I recall back in 1981, when the last contentious piece of dairy legislation passed, I said that many farmers said the conversion program was not going to work. It has worked in some areas. For us up here, quite frankly, it has not. We also said that most dairy farmers can turn cows on and off faster than most people can turn on and off water spigots, so we will have an awful plug at that end. And, of course, that's been true.

I don't say that by way of criticism of the committee's work product or what was done on the House floor, because we did have an opportunity for a fair fight and Mr. Coelho gave us the opportunity. The fact is that we were so fragmented among ourselves that we could not come up with a decent program. I want to say to the people who have been working day in and day out and week in and week out here in the State, and I guess they are from the country, generally under the umbrella of the Farm Bureau, coming up with what they perceive is the way to go.

As we have the testimony in the hearing and refine the differences in the legislation, if we cannot come up with a compromise we will be allowed a fair fight on the floor of the House and hopefully in the Senate, and that is why it is so important. Someone said to me, "Why should we be having this? It is a good time. We are going to narrow the issues and I am sure we have a very fair chairman, and I mean that. We are going to have that fair fight if we cannot agree on what the agriculture committee has drawn up. So I want to thank the people who drove many miles to get here. Believe me, your presence here is very important. And again, I want to thank the chairman for coming. Fortunately, he always comes to New York and one fine day we will have him back here in beautiful New York. Thank you Mr. Chairman.

Mr. COELHO. Thank you Dave, I appreciate it. Our next colleague, Stan Lundine, a very close personal friend of mine as well.

STATEMENT OF HON. STAN LUNDINE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. LUNDINE. Thank you Mr. Chairman and I too want to welcome you to upstate New York. Sincerely, I appreciate your being here. Some of my comments will probably be addressed more to the long-term situation as you have just answered a question in the press conference, than to the short term, but I think it is important that we look at both. As my colleague Mr. Horton has emphasized, agriculture is the major economic activity in the State of New York. Our district for example, has many small dairy farms with the average herd size of about 50 cows. The current situation is that farmers are being pushed off their dairy farms and out of business by Federal policies that are operating to the detriment of this industry.

They are forcing bankruptcy on efficient farmers. Particularly the young ones who are highly leveraged and have done exactly what Cornell University and the Federal Government told them to do over the last several years. The reason we are here today though is not to look backwards, but to look ahead. I believe that we have to pass a farm bill that will address the overriding domestic problem that this Nation faces—the Federal deficit. I believe that the dairy industry has to take its share of the cuts. No more than our fair share but we have to be prudent along with every other aspect of Federal activity.

I am going to address myself primarily to your bill, the dairy unity bill, because I think the administration's proposal is ridiculous. It seeks to deal with an already disastrous situation by pulling the plug on the industry and seeing what will happen. Mr. Chairman, I think there are three major points I would like to make about the dairy unity bill.

The first is that I am in agreement, in principle, with formula pricing provision. I need not say more. I do think though that your committee, the Agriculture Committee, should consider a cap on payment to individual farms because we start out with a program that seems to be designed with the family farmer in mind and large corporate enterprises unnecessary in an area like dairy take advantage of it, twist it and contort it and that is some of the reasons for increased costs and increased oversupplies.

Second, let me address the situation of supply-management techniques. I cannot support a permanent extention of the diversion program. In 1983 I did support it because we had a crisis on our hands.

The only two options available to us were to force even more farmers into bankruptcy or to have some kind of a temporary diversion program. Nationwide I believe this worked rather successfully by reducing production by about 3 percent. But here in New York and in our district we have paid twice as much in milk taxes as we have gotten back in diversion payments. We who are not contributing to the oversupply of milk in any way, we do not produce as much milk in this State or in this region as we consume, we are paying a very high price and I do not think it is fair to continue that even on a standby basis for regions that are not contributing to the surplus. I am fundamentally opposed to a permanent system that pays farmers not to produce, whether it is milk or any other product.

In lieu of diversion, I strongly urge you to consider a system of two-tier pricing—whereby the Government would provide a reasonable level of support for the amount of milk which meets our estimated national consumption needs and then a much lower price for any additional milk marketing. Then the Government, having purchased the excess supply at the lower price, could agressively market it on the world market, thereby contributing to our trade balances and I believe having a fairer system as well.

Third, I would like to commend the subcommittee on your efforts to raise the class I price. The new pricing scheme will help the milk-deficient areas in the country, particularly the Southeast but I think it is fair and I would also like to say that I believe that because of the different market characteristics of milk-producing regions in this country and the radical differences that we are facing—we need to try to nationalize and regionalize supply and demand in the dairy industry.

I want to stick to the 5-minute rule. There are many other things that I want to say but, just in conclusion, I commend you for being here. I commend you for supporting the continuation of the effort to increase the demand for milk and the Dairy Promotion Board is a very important part of this whole situation. We should not just focus on the supply of milk, we have also got to work on the demand. As yogurt plants and cheese plants and my own congressional district demonstrate we can market, we can produce healthful nutritious products and we ought to be addressing that. You have been addressing that.

Finally, let me say, I commend you for your attention to the problem of casein imports. I think this is another area we have to look at very seriously in America and I look forward to working with the subcommittee either during the farm bill or in its aftermath to address that critical problem. Thank you very much.

[The prepared statement of Mr. Lundine appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much Stan. Your statement will be made a part of the record and your comments and summary will be included as well. I would just like to clarify for the record that the proposal that we are dealing with at this point, I agree with you, does not have a permanent diversion program and I agree with you that we should not, but we are also not proposing it. The second thing is that California as well as New York, paid much more in dairy taxes than we took out, but that is why we have the United States of America which means that some people help out others and so that is what——

Mr. **Lundine**. Well, my point, Mr. Chairman, is that I think that is defensible on a short-term basis and I am not saying that we look at it strictly that way. I understand.

Mr. **Coelho**. Thank you very much.

Mr. **Lundine**. Thank you.

Mr. **Coelho**. Fred Eckert, your statement.

Mr. **Eckert**. Thank you Mr. Chairman. Mr. Chairman I have a long statement which I am going to waive and ask that you enter it into the record.

Mr. **Coelho**. Without objection, it is made a part of the record.

STATEMENT OF HON. FRED J. ECKERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Eckert**. I want to listen to the real experts here, the farmers. But I will take just a couple of minutes to run through the points.

First of all, I assume that what my colleague, Mr. Lundine, just said about the negative impact on the State of New York and I very much appreciate your coming to New York State today to hear the concerns of our dairy farmers.

One point that I also want to make as you will hear later from the chairman of the State Senate Committee on Agriculture is the impact here of casein.

I want to endorse the concept of Congressman Rose's bill which addresses that problem. It does not make much sense for the United States to import the equivalent of 6.3 billion pounds of skim milk as casein when the Commodity Credit Corporation is expending $1.5 billion of taxpayer funds in purchasing 8 billion pounds of milk.

Another point I would make is our concerns about the European Economic Community's unfair subsidy practices on their exports and urge you as members of the subcommittee to support some of the efforts to deal with that unfair competition. Also, I think it is important to New Yorkers that we repeal the cargo preference requirements on Government-supported agricultural exports in order to give our farmers a little bit better edge.

Finally, of course, the high value of the dollar is serious and a killing impact on American farmers and it is imperative that we in Congress above all else this year address these single most important domestic problems facing the Nation and that is to significantly dent that deficit so that we can bring interest rates down and bring our exporting capability back to what it used to be.

Again, I ask that you enter my full text into the record, I welcome you to New York. I appreciate your coming and I look forward to listening to the concerns of the dairy farmers.

[The prepared statement of Mr. Eckert appears at the conclusion of the hearing.]

Mr. COELHO. Thank you Fred. Your statement will be made a part of the record and your comments as well.

Now for our first panel which will be made up of Steve Riford and Nancy Hoffman. If they will both come up, we will be glad to hear from them at this time.

Nancy is not here? She may have had a problem getting in. Go ahead Mr. Riford.

STATEMENT OF L. STEVE RIFORD, JR., CHAIRMAN, NEW YORK STATE SENATE COMMITTEE ON AGRICULTURE, ACCOMPANIED BY NANCY LORRAINE HOFFMAN, RANKING MINORITY MEMBER

Mr. RIFORD. Thank you, Mr. Chairman. Mr. Chairman, members of the committee, I also welcome you to New York and appreciate very much your holding this hearing. You have my statement, which I would appreciate being made part of the record. I would like to comment on a couple of areas of major concern to us on the State level.

In certain milk-producing areas of the country, our farms are small. We average about 65 milk cows per farm in New York State. The farmers and family furnish most of the labor. Their skills and their capital are committed to the dairy enterprise.

Their options in New York State are almost nil. It is extremely difficult for a farmer and his family to just continue dairying. During the last 5 years the income that the producer and his family have received for their labor and capital has drastically declined as prices have remained low and costs have increased.

I am convinced that the present level of prices is certain, however, to cause an adjustment in supply but very slowly and very painfully. Dairying requires a major investment. Moving in and out of dairying is extremely difficult. It is a slow process. A low price, a price even as low as $9 or $10 would not bring an immediate adjustment in supply in my judgment but it would mean a protracted period where thousands of hard-working dairy farm families would be subject to great hardships.

I am very much concerned about the direction there and in addition to that after a period of low prices milk shortages would reappear and the boom and bust cycle would start again which I think would be disastrous to the dairy industry.

In my judgment we do need a continuation of the Dairy Support Program. With support set at a level which will not unduly stimulate production nor depress prices. My statement for your hearing on June 5 endorsed Congressman Rose's bill relating to casein imports. Since that time I have had the pleasure of reading some of the other statements that were presented to your hearing. I think some of the arithmetic in those statements needs review.

Some of the numbers that were given you, we checked them out and our calculations—didn't come up with the same numbers.

Mr. COELHO. Who are you referring to?

Mr. RIFORD. I am referring to the arithmetic in the Committee to Insure Fair Supply of Casein from New Zealand.

Mr. COELHO. OK; go ahead.

Mr. Rivers. It is simply inconsistent for the Commodity Credit Corporation to buy at the cost of $1.3 billion, and that figure came up in your remarks this morning, the equivalent of 6.3 billion pounds of milk. It does not make sense.

It is equally ridiculous for the Bureau of Customs to classify casein as a chemical when it very clearly is a dairy product. But this exemption, of course, is from the dairy import quotas. Now we think that there would be some substitution of casein with nonfat milk solids in industrial usages. We do not think that this would happen in foods.

We believe that the restriction of this import would be a major assistance to our dairy program and offers a most attractive alternative to knocking dairy farmers for the $300 million you mentioned earlier.

Now in addition to this situation, it was recently reported for reasons not yet clear that the milk equivalent of 327 million pounds over quota in the form of cheese was imported into this country last year and I think the dairy industry as a whole would like to know more about how that happened and why and if it could not be regulated. We certainly do not need to import more than the quota.

If you will permit me, I would like to announce here that we have been looking into that and we intend to hold some hearings as to what has been going on here because while we are suffering economically, we should not be permitting some of our foreign neighbors to go ahead and violate the U.S. laws and that is what we are permitting to have done so I appreciate your suggestion and we intend to look into that and we intend to hold a hearing on that soon.

Mr. Coelho. That is fine. We appreciate knowing about that.

Mr. Rivers. Another area that we in New York State have a problem with the Federal Government is on labeling. The regulations permit the use of the word, "substitute" if the product is theoretically nutritionally equivalent in protein only and I think they use crude protein rather than digestible.

I think this makes a major difference. Particularly in the Northeast where pizza is an example of how labeling policies have injured domestic dairy markets.

Historically, pizza has been a bread-based product, topped with cheese, with or without certain meat products. In 1973 the USDA proposed these products contain 12 percent cheese but they never implemented that regulation. Currently the USDA is considering ruling that pizzas must contain at least 6 percent cheese with the other 6 percent imitation cheese.

This proposal has been under consideration for nearly 2 years without USDA action. Currently a pizza can have nine parts of the ersatz product and only one part real cheese and the imitation can be called, "substitute."

In my judgment, Congress could come to the rescue of dairy farmers in this area by insisting when imitations are used the labels permit the consumers to know what they are buying. We are not recommending prohibition on the use of imitation. We think labeling in this area is very important.

The Dairy Production Stabilization Act of 1983 contained a provision that for the first time assured a national program of promotion and research. It appears certain that the national referendum will be approved by producers. A highly successful promotion order has been in effect in New York State since 1973. Our dairy farmers feel that they have received substantial dividends from this effort and it has been popular with producers. We believe it should be continued on the national level but with the provision, as now provided, that ongoing, qualified State or regional generic promotion or nutritional education programs will get appropriate credit. That is they should be permitted to keep up to two-thirds of the assessment charge. We understand there has been some discussion of not doing that and we hope that that will not happen.

Finally, the special milk program that subsidized the sale of milk in schools at snack times was perhaps the least expensive of Government expenditures for surplus milk. A calculation suggests it would be less expensive to furnish free milk to children in schools than to buy surplus dairy products.

Current nutrition programs are also of substantial in sustaining consumption during our oversupply situation. Again, Mr. Chairman, we appreciate your coming to New York State on behalf of the State senate.

I want to express appreciation to the people of the State for your presence here.

[The prepared statement of Mr. Riford appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very, very much, Steve. Your reputation as one who knows his business in agriculture precedes you. Frank and others have told me how effective and good you are. We appreciate what you are trying to do to help out the agriculture industry in this particular State, so your statements will be taken with a great deal of thought, and you can make sure that we will try to do something in regards to casein and also in regards to labeling.

I am pursuing that. We are hoping that we have something in the full committee dealing with labeling. That has not been finalized yet. And then we are hoping that we can possibly do something with casein either in the full committee or on the House floor and we are hoping that some of our colleagues from the New York delegation will help lead the effort in regard to that so you can help me to convince these——

Mr. RIFORD. They are already with you——

Mr. COELHO. To offer the amendments, and so forth, but we think something should be done and we look forward to it. Thank you again.

Mr. HORTON. Mr. Chairman I would just like to thank the chairman of the Senate Agriculture Committee for his interest in this. He is also a dairy farmer and I did put his statement in the record when I testified before the subcommittee on this matter of casein.

As you know, I am one of the original cosponsors of the Rose bill and also the bill which is pending before the Ways and Means Committee.

There is no question but casein is going to have to be grappled with, and the export and the importing of that casein into this country is a very serious problem for us. Thank you Mr. Chairman.

Mr. MARTIN. I want to embrace everything Frank said and I want to say publicly here what I have said privately. Having served with Steve Riford in the New York State assembly, I thank him for his guidance there and I thank him for his guidance since I have left the assembly on areas relating to agriculture.

There is no finer person or a more involved public servant that I have ever served with, this fellow here, and I even told the chairman that. Thanks a lot.

Mr. ECKERT. I can verify that Steve and I certainly echo my other former colleague from the State legislature, David, in saying those fine things about you and I appreciate it, since I have been in the Congress since January, your frequent correspondence and your very well prepared materials on the agriculture issues that face our State and grateful to you for supplying us, for fine work and appreciate you for helping us get that together.

Mr. COELHO. I will tell you what Steve, we will get a transcript of this hearing and you can use this in your re-election effort. The next panel is made up of Mr. Yancy and Mr. Buckley. If they will please come forward we will hear from them.

Mr. Buckley, let us have Mr. Griffen and Mr. Dodge both come up and we will include them on this panel. Mr. Griffen and Mr. Dodge, if you will both come up as well, it should make for an interesting panel here. If Mr. Yancy comes in we will be happy to hear him. Mr. Buckley, you may proceed.

STATEMENT OF JOHN C.K. BUCKLEY, VICE PRESIDENT, PURCHASING, NESTLE FOODS CORP.

Mr. BUCKLEY. Thank you Mr. Chairman and members of your committee for providing the opportunity for Nestle Foods Corp. to be represented here today to make some comments on pending legislation.

My name is John Buckley and I am vice president of purchasing for Nestle Foods. Our administrative headquarters is located in White Plains, NY. We have 13 manufacturing facilities nationwide. Of which three are very significant users of dairy products and fresh milk in particular.

Of our total payroll of over 5,000, over 2,000 of those are located in New York State and our largest chocolate manufacturing plant which is also our largest user of fresh milk is located in Mr. Horton's district, I understand.

The first facility on that site was commissioned in 1900 and in the intervening 85 years that plant has, of course, been modernized and expanded many times. We have led for our 85-year history, a continuous and intimate contact with the dairy industry in the Northeast.

Turning to legislation, we are in principle, wholeheartedly in agreement with the objectives of providing in the 1985 farm bill the comprehensive approach that is market-oriented and long-term in nature. In our view, the farming community and the dairy industry in particular needs to be able to plan ahead on a long-term basis in a similar way that we in the manufacturing industry do.

The farm bill should provide the framework within which adjustments can be made to the ever changing economic environment and to provide continuous adequate and competitive supply of top quality products.

We are all aware, Mr. Chairman, of the very large stocks and some agriculture commodities that exist in the country and in the interest of time I will not dwell on the statistics that are widely publicized on the——

Mr. COELHO. Your statement will be made part of the official record. You may proceed with your comments.

Mr. BUCKLEY. We recognize the need for measures to be taken to reduce such excess to more manageable proportions and the proposals now under consideration address this issue over a period of time.

However, Mr. Chairman, paradoxically in the country amassing such surpluses, we at Nestle Foods, located primarily in the Northeast section of the country, find it increasingly difficult to maintain an adequate supply of fresh milk at all times.

Indeed, last winter there was an actual shortage of fresh milk supplies for our plant in New York, and we were obliged to make good that deficit by using some quantities of whole milk powder in our manufacturing processes.

This necessitated our printing, obviously at some expense, new labels with the change of ingredient statement to accommodate that change.

I may add at this point that Nestle Foods normally relies on using fresh whole milk for the manufacture of our quality chocolate products, and we only used whole milk powder as a last resort.

To oversimplify a very complex situation, the insatiable thirst of the large urban areas in the Northeast is responsible for the inbalance in supply and demand but we feel there is a genuine shortage in the Northeast sector.

The surplus of milk products previously referred to arises essentially in those other parts of the country.

As was proven last winter, the balance is not sufficient to supply all our needs in the Northeast during the time when milk production is at its seasonal low. The surplus of milk products referred to in those other parts of the country where there is not a large concentration of urban areas and where intensive milk production activities can be conducted on a large scale.

Therefore, while in principle we support the objectives aimed at reducing the surpluses, the fact is that we do not feel that the broad view of the national policy provides the complete answer.

Rather, we believe that while the overall total of national production could be usefully reduced, regional departures from the norm should be recognized and special provisions be applied to add to the substance of the Northeast to encourage a greater availability of fresh, liquid milk supplies and thus maintain in the Northeast the expanding opportunity for small dairy farmers to continue in business on a long-term basis and to ensure adequate supplies for the increasing demand in this area.

We are convinced that this objective could be achieved in this area where alternative economic farming opportunities are rather limited. Various suggestions, Mr. Chairman, have been made already here today. Two-tiered pricing could be one possibility. Varied supports in different parts of the country, others. But we certainly do advocate some measures, but by incentives, not reduction of our essential supply.

[The prepared statement of Mr. Buckley appears at the conclusion of the hearing.]

Mr. COELHO. Thank you Mr. Buckley. Mr. Griffen, you may proceed.

STATEMENT OF PHILIP C. GRIFFEN, PRESIDENT, NEW YORK FARM BUREAU

Mr. GRIFFEN. My name is Phil Griffen and I own and I operate a 750 acre, 100 cow dairy farm in Saratoga County, NY.

Currently I serve as president of the New York Farm Bureau, a 22,600 member general farm organization. I would like to thank the House Agriculture subcommittee and you, Chairman Coelho, for letting me comment on the dairy provisions of the 1985 farm bill.

New York's dairy industry comprises 57 percent of the cash receipts from agriculture, New York's largest industry. In 1983, New York was nationally ranked seventh in butter production, fourth in cheddar cheese production, second in Italian cheese production, first in cream cheese production, and fourth in ice cream production.

We do have a very extensive industry in New York State. New York dairymen are anxiously awaiting the crucial decisions that you, as lawmakers, must make on the 1985 farm bill. Dairy farmers have just completed a 15-month period where long range plans and decisions for the most part have been put on hold.

Without the ability to look to the horizon and determine, with reasonable accuracy, what the price of milk will be over the next 2 to 5 years, producers are unable to do the necessary financial planning to remain competitive in the future.

Our industry has been strung along for the last 4 years with bandaid attempts to resolve the dairy surplus situation.

Production trends for 1985 indicate that any gains in reducing the dairy surplus through the diversion program will be lost to production increases. Diversion program participants are adjusting their production upward in order to maintain cash flow levels necessary to run their businesses.

The diversion program served only to delay the inevitable. Current farm bill dairy proposals demonstrate a recognition by the dairy industry that major changes are necessary to reduce Government expenditures and rebalance supply and demand. Farm Bureau members through their extensive policy development process, voted in support of continuation of the dairy price support program, the elimination of parity from determining the support price and tying the price support levels to Government purchases.

They also said, "no" to any producer assessments for the purpose of funding a dairy program. This farm bill, H.R. 1965, is designed to increase producer income by discouraging price depressing surpluses.

The level of Government purchases is the last indicator of whether a support price is too high or too low. The dairy title of H.R. 1965 includes the following provisions: Continuation of the price support purchase program; determination of the support price using 90 percent of the previous 3-year average all milk price. This price would be factored in the supply-demand adjuster at the 100-percent bracket; and adjusted support price to be determined by the following supply-demand adjuster. The chart is in my testimony and you can read that at your leisure.

The Secretary of Agriculture to be provided discretionary authority to adjust the support price from 7.0 to 7.99 billion lb. bracket by not more than 3 percent on April 1, 1986 and for any subsequent 6-month period thereafter. The support price and the adjusted support price to be adjusted semiannually, October 1 and April 1.

The Dairy Price Support Program has been an effective tool in balancing supply and demand for most of its 36-year history.

The program became ineffective when the Secretary of Agriculture lost his authority to lower the support price in response to the 80-percent parity.

By determining the support price based on 90 percent of the previous 3-year average all milk price, then further adjusting it up or down according to the level of Government purchases, we are returning the dairy price support program to a safety net program rather than the income enhancing program it has been recently.

Through reaffirmation of the Dairy Price Support Program, Farm Bureau members are saying that the marketplace is the only true indicator of supply and demand.

By modifying the program as outlined, dairy farmers will receive the proper signals as to whether they should increase or decrease production. Price will be the incentive.

The program is not oriented toward the free market. It does not exist in the dairy industry as you recognize and we recognize. Rather, it establishes Government as a safety net that will prevent the drastic fluctuations in price that can be devastating to producers and consumers, alike.

The price support program will continue to insure adequate supplies of quality milk and dairy products to consumers at reasonable prices, which is important. The consumer, of course, is our market.

The H.R. 1965 farm bill is fiscally responsive, The dairy title of H.R. 1965 would reduce Government expenditures for dairy to a projected 4-year average of $1.2 billion.

A substantial decline from the $2 billion spent in 1983 and within budgetary guidelines accepted by the President. Once the supply-demand balance is achieved, Government expenditures will be reduced even further. The $600 to $700 million range is not unreasonable over time.

Farm Bureau's farm bill facilitates the long-term stability that is so vitally important to our industry. Recent programs have prohibited the industry from planning ahead more than 1 year in advance.

Under H.R. 1965, farmers will be able to look ahead and know with reasonable certainty just how to plan their production.

In addition, H.R. 1965 continues to maintain minimal Government involvement in the dairy industry. Farmer assessed diversion programs along with other supply management systems create more bureaucracy which means more taxpayer expenditures for dairy programs.

The track record of the Dairy Price Support Program is clear proof that Government and private industry can work together in harmony at minimal taxpayer expense.

One cannot look at H.R. 1965 without recognizing common provisions contained in other farm bill proposals. Continuation of the Dairy Price Support Program and tying price supports to Government purchases are two ideas that have received broad based support from most all producer groups. In addition, the replacing of parity with an updated economic formula to establish the support price and instituting a standby program for extreme circumstances are ideas supported by other organizations.

Farm Bureau recognizes that a standby program may be necessary; but, the program should perform as a standby, not an integral part of the program.

The standby provisions contained in H.R. 1965 authorizes the Secretary of Agriculture to lower the support price by not more than 3 percent during any 6 month period.

It is a logical extension of the price support program. Dairy farmer leadership in the Northeast have been working together for the purpose of developing a common position on the dairy provisions of the farm bill for over a year.

This would give some answer to the unity that you are calling for in the Northeast. The 1985 Farm Bill Committee, representing producer groups in New York, Pennsylvania, New Jersey and Vermont has taken a position in support of all the provisions contained in the dairy title of H.R. 1965.

In addition, the committee does not support any form of farmer assessed diversion programs. New York Farm Bureau is pleased to be an active participant on this committee.

Current congressional cosponsorship of H.R. 1965 numbers at 83. New York Congressmen Wortley, Horton, Martin, Solomon, and Boehlert and Senators Moynihan and D'Amato have demonstrated their leadership and concern for New York dairymen by cosponsoring the Farm Bureau supported farm bill. New York Farm Bureau greatly appreciates their support.

In closing, Farm Bureau is proud of H.R. 1965 because it is a product of an extensive grassroots policy development process.

The bill, again, substantially reduces taxpayer dollars into agriculture and allows producers to continue to make their own production decisions based upon accurate market signals, and facilitates growth of export markets for wheat and feed grain commodities and helps to build a foundation for long-term stability in agriculture.

New York Farm Bureau encourages your support. Thank you.

[The prepared statement of Mr. Griffen appears at the conclusion of the hearing.]

Mr. COELHO. Thank you Mr. Griffen. Mr. Dodge.

STATEMENT OF DAVID DODGE, COCHAIRMAN, DAIRY COMMITTEE, AND MEMBER, BOARD OF DIRECTORS, NEW YORK FARM BUREAU

Mr. DODGE. My name is David Dodge. My wife, Nancy and I own and operate a 150 cow farm near Woodville, NY. I might add that we have no other source of income than farming.

I am presently cochairman of the New York Farm Bureau Dairy Committee and a member of the board of directors and my remarks are made on behalf of New York Farm Bureau.

Delegates of the 1985 American Farm Bureau annual meeting voted "no" to farmer assessments by the Federal Government as part of any future dairy legislation. By doing so, they reaffirmed their belief that the Dairy Price Support Program has the ability to balance milk supply and demand.

H.R. 1965 was crafted to implement this policy directive. There are important reasons why Farm Bureau's farm bill does not contain provisions for farmer funded supply control programs. I would like to share a few of these with you this morning.

The Farm Bureau membership believes that price, as conveyed through the Dairy Price Support Program, can control dairy product surpluses. It is a proven program.

Between 1949 and 1978, support prices were lowered six times. On each of these occasions, CCC purchases were reduced substantially. Modification of the Dairy Price Support Program as proposed in H.R. 1965 will permit a national dairy program to continue to effectively serve the farmer and consumer well into the future.

Implementing any sort of farmer assessed program to control production lends itself to a substantial burden upon all producers. The effective pay price to dairymen will most likely be lower than the program embodied in H.R. 1965.

We must divorce ourselves, I think, from discussing just the support price. What the farmer is interested in is the price that he receives for his product, not just the support price.

Government expenditures will be less, at the expense of the U.S. dairy farmers. During this period of severe economic recession in agriculture, why saddle producers with this extra burden, particularly when another program has a proven track record?

Once instituted, the diversion program will essentially be a permanent program. Once dairy farmers participate, they will find it very difficult to leave the program without substantially increasing production levels to meet cash flow needs.

This production readjustment could be substantial enough to require instituting another diversion program. Today's upward production trends, following the last diversion program, illustrate exactly what I am talking about.

A continuation of any form of supply management will institutionalize the use of bases in dairy. The cost of quotas or bases are capitalized into the value of the farm and become a significant economic restriction to farmers wanting to get in or out of dairying.

Since these bases increase the cost of producing milk, support prices are required to insure farmers receive an adequate return.

Consumers ultimately pay the bill through higher milk and dairy product prices. Statistics from the recently ended Dairy Diversion Program show that 36 percent of farmers not participating in the program decreased their production.

In fact, nonparticipants with marketing declines of 5 percent or more exceeded the number of diversion participants and obviously, other incentives such as price, brought forth production declines.

The cost of future diversion programs will most likely be greater than the program just ended. Now that dairy farmers have an understanding for how the program works, they probably will be more inclined to sign up if there is an economic incentive to do so. More diversion program participants mean more cost to producers. This scenario could easily eat up any producer gains achieved by maintaining artificially high support prices.

From a Northeast perspective, the diversion program cost our dairy farmers approximately $62.5 million. In New York State, $1 was lost for every $2 paid as assessments.

What we have experienced is a disproportionate flow of farmers' dollars out of the Northeast and Southeast into the Midwest.

How can our dairy industry remain competitive if we have to help pay for a program that shifts dollars out of our region into the Midwest farmer's pockets?

The Northeast has been an economically viable region for producing milk. The Italian cheese industry established itself here because of this fact. We serve the largest population center in the country.

Northeast dairy farmers can remain competitive in the future, but not if we have to continue to fund other production regions for the purpose of paying them not to produce. The Dairy Price Support Program has treated all regions equitably. Farm Bureau believes the system should remain that way.

No other agricultural commodity sector, except for tobacco, has ever been assessed for producing too much product. The pressure to change to a system of farmer assessments comes from a region that stands to gain economically from such a system. The Northeast is not about to sit idly by and watch this program pass through Congress.

Mr. COELHO. Mr. Dodge, you are over your 5 minutes. Mr. Griffen also went over his 5 minutes also. We are going to have to put the time clock on you. The Farm Bureau is getting two statements here instead of one. Let's summarize if you can.

Mr. DODGE. I would like to add—the last paragraph, I think, is important because in the—I understand that in the bill that is being presented by your committee there is a commission to legislatively change the class I differential.

The market system has provisions to do that and we feel that is a dangerous thing to do to open it up for legislation as a method of changing that.

One other point I would like to add. It has been my pleasure to serve as manager on the National Dairy Board, National Dairy Promotion Research Board. I really feel that the future of the dairy industry is in the marketplace, not in the halls of Congress. We need a program that is outlined to maintain some stability in the industry and the pricing program has done that.

I feel that any program that will isolate us from the market through technology is going to reduce the cost of producing milk. We need to take advantage of that in the marketplace and I think we can do that.

[The prepared statement of Mr. Dodge appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very much Dodge.

Mr. Horton.

Mr. Horton. No questions, Mr. Chairman. Thank you.

Mr. Coelho. Mr. Martin.

Mr. Martin. I want to thank the Farm Bureau for the statement of Mr. Dodge, my constituent. He's worked very hard.

Mr. Coelho. Mr. Eckert.

Mr. Eckert. Thank you very much for coming.

Mr. Coelho. Mr. Boehlert.

Mr. Boehlert. No questions, Mr. Chairman. I do have a statement for the record.

Mr. Coelho. You will be recognized next to make your statement. I would like to ask a couple of questions of the panelists. I appreciate Mr. Buckley's coming here today. It is well known, of course, by those of us interested in the dairy business that we need to have consumers like you to take a lot of our products, so we appreciate your willingness to participate in these hearings and to indicate your concern.

Mr. Griffen, I am interested in your statements about the Farm Bureau program. How much would the Farm Bureau program cost in the first year of operation?

Mr. Griffen. As I stated, the average would be——

Mr. Coelho. I did not ask the average because I know what the average is. The concern is that we have to meet budget reductions in the first year, not average deductions over a 5 year period. What is the cost of the program in the first year the program——

Mr. Griffen. As far as we understand it, $1.2 billion is a personal goal of yours, is that not correct?

Mr. Coelho. No, it is not a personal goal. It is the goal of the chairman of the committee. Those are the restrictions he has put under me. If we do not reach the $1.2 billion he is going to slap a $900 million reduction on us, so we have an incentive to reach the $500 million. What is the cost of the Farm Bureau program?

Mr. Griffen. The 83 supporters that we do have have said that our program is fiscally responsible.

Mr. Coelho. Mr. Griffen, I am not asking for a debate. I am asking a question. You are on the panel and I wish you would answer the question. The question is how much is the cost of the program in the first year of the proposal?

Mr. Griffen. Based on facts and figures that we may or may not have—all those figures in. It is approximately $1.6 million.

Mr. Coelho. So the cost of the Farm Bureau program is $1.6 billion in the first year of the program——

Mr. Griffen. Billion, I meant.

Mr. Coelho. And that means that in effect it would reduce the cost of the current program by $100 million and that would be all. Is that correct from what you are telling me?

Mr. **Griffen**. I think basically we are concerned about what it is costing dairy farmers.

Mr. **Coelho**. But answer my question. I am not asking for speeches. You have already given an 8-minute speech. Answer my question. It would reduce the cost of the current program by $100 million?

Mr. **Griffen**. No; it is much more than that. The current cost of the program is——

Mr. **Coelho**. The current cost of the program is $1.7. Your statement, and what I know to be fact, is that the Farm Bureau program would cost $1.6 so——

Mr. **Griffen**. Oh, I'm sorry. I take that back. It is $1.43.

Mr. **Coelho**. $1.43 in the first year of the program?

Mr. **Griffen**. The first year. The second year it would be $1.38, the third year it would be $1.1.

Mr. **Coelho**. OK. The first year of the program then would be $1.43 so that would be a savings of a little over just about $300 million as opposed to $500 million which we must come up with. If you cannot reach the goal of what the industry has to come up with—$500 million—where would you take the other $200 million out to reach that goal of $500 million reduction?

Mr. **Griffen**. It certainly would not be in support of the Dairy Diversion Program. That would be one place——

Mr. **Coelho**. I did not ask you that. I asked you the question, "Where would you come up with—"you must be on a record of some sort. Where would you come up with the——

Mr. **Griffen**. This is not on the record is it?

Mr. **Coelho**. Yes it is. Where would you come up with the additional $250 million in order to reach the budget requirement? I assume, Mr. Griffen, that you are as concerned as most agriculturists to do something in regard to deficit reductions?

Mr. **Griffen**. We certainly are. In fact we feel that we have done much more of our share at the present time and you stated so this morning at breakfast. In the dairy industry we have done more than our share of cost cutting, budget deficit reductions and the whole 9 yards. It really is up to more than just the dairy program or the dairy farmers of the United States to be cost-conscience——

Mr. **Coelho**. Are you opposed to the $500 million reduction of the dairy——

Mr. **Griffen**. Certainly not. We are very sure that there is going to be some compromises along the way. We are not saying that there is not going to be any compromises in our plan.

Mr. **Coelho**. OK. You answered again, though, where would you come up with the other $250 million to meet the $1.2 billion cost of the program?

Mr. **Horton**. Mr. Chairman, perhaps he is not prepared for that. Perhaps he could phrase that information at a little later date.

Mr. **Coelho**. If you can provide the information we would appreciate it.

Mr. **Griffen**. Certainly.

Thank you, Mr. Horton.

Mr. **Coelho**. As we get ready for the full committee, we would like to know where you propose to cut $250 million. Mr. Griffen you talked about the fact that you did not want a permanent diversion program. I pointed out earlier that nothing in any of the proposals that I am aware of have a permanent diversion program. I assume you are speaking rhetorically as opposed to any specific bill?

Mr. **Griffen**. True.

Mr. **Coelho**. OK. Mr. Dodge you are opposed to any class I differential because you said that the U.S. Department of Agriculture has that authority now. Do you know how long they have had that authority?

Mr. **Dodge**. I think the legislation passed in 1937.

Mr. **Coelho**. Right. Do you know how many times they have used it?

Mr. **Dodge**. No, I am not sure of that.

Mr. **Coelho**. Do you know that one of the reasons there has been an interest on the part of our subcommittee to do something about it is because USDA refuses to use that authority?

And do you realize that after we put it in our proposal the USDA finally decided to do a hearing and so we now have a hearing moving. So the mere fact that we are thinking about it must mean the USDA is concerned and doing something, so maybe what we need to do in this subcommittee is to try to stimulate USDA more often.

Mr. **Dodge**. I have no problem with that. I do have a problem with legislatively doing something to the Federal order system.

Mr. **Coelho**. Do you feel that we need to do something in regard to casein?

Mr. **Dodge**. Yes.

Mr. **Coelho**. Do you feel that the administration has the authority today to label casein as a food instead of as a chemical?

Mr. **Dodge**. I believe they have that authority.

Mr. **Coelho**. But you want us to do something in regard to casein because the administration is not doing anything, so what you are saying to me is that in regard to differental, we should not do anything because they have the authority but in regard to casein, we should do something even though they have the authority?

Mr. **Dodge**. I do not disagree with that, but I think we are talking about two different things here. The Federal order system has a procedure and it is voted on by producers. Those Federal orders were designed to provide stability to the industry and protect dairy farmers.

The changes have to be voted on by dairy farmers and I think to change that, to do it by a different method is a dangerous tactic to take.

Mr. **Coelho**. How are you doing it by a different method if the proposal that was supported by the dairy farmers provided for differentials and those differentials are not being adhered to by USDA?

The dairy farmers are ready to approve that. That is something that has been approved. It is not something that we are advocating be changed differently than what is already in the law.

That is the law. What we are advocating is that the Department comply with the law, so we are not doing anything differently than the dairy farmers want.

Mr. **Dodge**. No problem with pressuring the USDA to comply with the law. But I think to legislatively mandate it is a different tactic. I do not think we should do that.

Mr. **Coelho**. Let me just tell you this. I happen to feel that the Department of Agriculture is not doing anything on differentials and we should make them do it. I happen to also feel that nothing is being done on casein and we should make them do that as well.

I think we should be fair to all regions of the country. I appreciate your appearance today and we will take the next panel. Thank you.

Governor Mario Cuomo was supposed to be here today and he has been locked in Albany because of the weather. He cannot get out. To present his statement we will have Joe Gerace. Joe, do you want to come up and present the Governor's statement? Joe, as everybody knows, is the commissioner of agriculture for the State of New York.

I am sorry that Mario cannot be with us today. He is a close friend of mine. I am one who is interested in his future politically and I wish he were here so I could say it publicly for the record. As one who is very actively involved in the politics of my party, I would love to have had him here so I could publicly say for this area that he is a resource that should not be only used in New York, he is a resource that we need nationally.

Mr. **Horton**. I would also like to have had him here. Not for any partisan reasons, but I think he is vitally interested in this matter and he is very much interested in the problems of the dairy industry. I personally talked with him on the subject and I know it is unfortunate that he could not be here because I know he really wanted to be here. So, I also want to join the chairman in welcoming Mr. Gerace the commissioner of agriculture.

Mr. **Coelho**. Go ahead.

STATEMENT OF MARIO M. CUOMO, GOVERNOR, NEW YORK, PRESENTED BY JOSEPH GERACE, COMMISSIONER, NEW YORK STATE DEPARTMENT OF AGRICULTURE AND MARKETS

Mr. **Gerace**. In the interest of time I was attempting to edit his statement, but on second thought I would rather it be given just the way he would have given it, so you have the full flavor of it.

I might say, Mr. Chairman, if I had it within my power to make you an honorary member of the congressional delegation in the State of New York, even though we might have some differences of opinion, I admire you for your forthrightness and sincerity in approaching the problem.

Mr. **Coelho**. Thank you.

Mr. **Gerace**. Chairman Coelho and other distinguished Members of Congress, all of us here in New York welcome the opportunity to comment on the various farm bill proposals before you. Contributing, we hope, to the thoroughness of your deliberations.

These deliberations will lead to changes in the way we, as a people, try to insure something most of us take for granted—an abundant, reliable, and reasonably priced food supply.

Your decisions on Federal farm policy will affect every American, but clearly the most immediate and dramatic impact will be on farmers across the country.

We New Yorkers have more at stake here than some people realize. I suspect that if you were to ask people around the country to name New York's largest industries, you would get a variety of answers, banking, advertising, computers, fashion, entertainment, and tourism.

I do not think you would hear agriculture mentioned too frequently. Yet agriculture is one of New York's largest and most important industries, with nearly $3 billion in annual farm receipts.

We have more than 48,000 farmers who work some 9 million acres. Our farms, 99 percent of them family-owned, employ about 100,000 people.

Another 400,000 are employed in the whole array of businesses and professions that provide supplies and services to farmers. Firms that sell fuel and fertilizer and machinery, combined with all the processors, distributors, wholesalers and retailers. This huge agrifood industry generates about $10 billion for New York's economy each year.

Our agricultural industry is not only large, it's diverse. We rank second in the Nation in apple production, third in veal, fourth in cherries and grapes, fifth in the production of fresh vegetables, and sixth in vegetables for processing.

The most predominant single section of New York's agriculture is dairy farming. The sale of milk accounts for 58 percent of all farm cash receipts in New York, and 13 percent of national farm receipts. We are the Nation's third largest dairy farming State, producing more than 8 percent of the Nation's milk supply. In the Northeast we are No. 1, supplying 44 percent of the region's milk.

These statistics, I believe, are impressive enough to establish our credentials as a farming State. Unfortunately, we have not been immune to the trends affecting farming all over this country.

That net farm income is half of what it was 4 years ago. Half—imagine trying to live on half of what you earned in 1981. The situation is equally bad or even worse in many other parts of the country, and there is little prospect for improvement in 1985. It is a dreary picture and it is getting worse. The effects are felt throughout our entire rural economy where farm closings are as devastating as the loss of factories in industrial areas.

We recently conducted a study here in Cayuga County that illustrates the truth of that assertion. About 20 percent of the businesses in this county are food and agricultural firms. They provide about 20 percent of the jobs and wages in Cayuga County, and that is apart from the farms themselves, and apart from the business that farms generate for lenders and insurance agencies.

When farmers suffer, the entire area suffers. That interdependence is multiplied 1,000 times in rural communities across the country. Everyone seems to agree that something must be done.

The question is, what? How do we use this crisis as an opportunity for intelligent reform, for strengthening the entire rural economy, for helping farmers to increase the profitability of their enterprise?

The administration in Washington has offered one answer. Allow me to sketch briefly what impact the administration's present proposal would have here in New York.

The broad trends here in dairy farming parallel those nationally. Twenty-five years ago we had about 42,000 dairy farms in New York. Today we have about 21,000.

During the same period, production per farm has nearly tripled. The major trend of fewer dairy farms producing more milk is likely to continue. In fact, the pace of change will probably quicken with the introduction of new technologies such as the use of the bovine growth hormone.

Some changes are improvements, but drastic changes, from too many directions at the same time, could be too much for the small and midsize family dairy farms which, for the most part, have had a very tough few years.

In its annual survey of dairy farms in our region, the Federal Bank for Cooperatives in Springfield, MA, found that the net earnings of the average dairy farmer in 1984 fell below the break-even level.

According to that survey, net farm income fell to the lowest level in 7 years, and the average dairy farmer has depleted his reserve for additional borrowing.

The farm price for milk in New York declined slightly between 1983 and 1984, and will decline even more this year. Further reduction in profit came from the 50 cent and the $1 assessments of 1983 and 1984.

The assessment during the Dairy Diversion Program totaled $73 million for New York's dairy farmers. During the same period, the index of prices paid by farmers increased by 13 percent. You do not have to be an accountant to calculate the result that higher farm costs and lower prices for milk have meant hard times for most dairy farmers.

As a result, most dairy farmers have strained to increase the efficiency of their operations, while others have been forced to leave agriculture altogether. Considering all these circumstances, I believe the administration's dairy proposal, in its present form, is too radical.

During the first 2 years of the administration's proposal the support price would be reduced to a low of $10.60 per hundredweight. In October 1987, the Price Support Program would be replaced with an estimated target price of $10.40. According to USDA's estimates, total cash expenses for 1984 may average $10.75 per hundredweight, well above the $10.40 target price for 1987. The cash expenses leave no money for dairy farmers to live on.

The administration's program will create an unstable market for farmers and consumers. It could lead to a cycle of low prices, driving dairy farmers out of business, then to tighter milk supplies and rising prices, encouraging more production and driving prices down again. There would be substantial economic hardship in our rural communities.

Now these criticisms are not meant to suggest that we do nothing. I think we all agree the present system costs too much. New Yorkers are willing to sacrifice to make it more reasonable, but it seems to me that the principal object of the Federal farm policy should be to protect our general interest. Not just in agriculture, but in the basic economies of rural communities. That general interest dictates, I believe, that we avoid placing additional burdens on the farmers hardly able to meet their present debts. Whether it is a dairy farmer here in Cayuga County or a grain farmer in the Midwest. Nobody will benefit from the massive failure of farmers.

What do we here in New York suggest? We recognize that there have been numerous dairy proposals introduced in Congress this year, and some of them include provisions which we approve in principle. We would like to see a Dairy Price Support Program introduced that is flexible enough to provide stable prices to farmers and consumers without contributing to an excessive buildup of surplus dairy products.

We need a support system that does not encourage dependency or shortcircuit the balance of supply and demand. A system that can adjust to changes in the cost of production, increased productivity, and particularly to Government purchases.

We ask for your consideration of a provision in the farm bill to provide for a supply-demand adjuster where the support price would be inversely related to changes in the level of Commodity Credit Corporation [CCC] purchases. This program would allow the support price to decline when CCC purchases increase, and to increase when CCC purchases decline.

The implementation of a supply-demand adjustment program must be gradual. We have other recommendations that differ from the Reagan administration. Dairy import quotas should be continued and consideration given to including casein under the section 22 quota.

Funding for the USDA Special Milk Program should be restored and continued. This program does two things well. It provides nutritional benefit to needy children in schools and is an important outlet for substantial quantities of fluid milk.

The producer-funded National Dairy Promotion Program should be continued through a national referendum vote by dairy farmers. We also encourage increased market development and product development programs. Aggressive Federal programs would offer our producers new opportunities for their products.

I understand this hearing relates primarily to dairy issues. I would, however, like to bring to your attention the issue of agricultural trade.

Farmers need better protection against highly subsidized foreign imports. We need a trade policy that is fair to our farmers. We must find a way to provide financial and technical assistance to farmers wishing to file antidumping and countervailing duty petitions with the U.S. Department of Commerce.

As important as the farm bill is, it is not the only Federal policy that will decide the shape of agriculture in our country. Equally fundamental is the broader question of the Federal deficit.

As a member of the Agriculture Committee of the National Governors Association, I worked on the formulation of its agriculture policy statement for 1985 and endorsed it without reservation. And in part that statement says, "One of the major contributors to the problems facing agriculture is the growing Federal deficit and the related high real interest rates. Agriculture, in fact, has borne the brunt of the national recovery through these high interest rates and the declining net income and higher debt load. Reduction of the Federal deficit will be the most important and effective farm program that the Congress will address in 1985."

Finally, we in New York are deeply concerned, as are people all over this country, about the effect on agriculture of the administration's proposal to eliminate the deductibility of State and local taxes from the Federal income tax. Beyond the obvious and considerable effect that the loss of deductibility will have on farmers, consider the effect it will have on States like New York that invest in the development of their agricultural economies.

This year, for example, our budget provided: $600,000 for an agricultural research and development program; $500,000 for an agricultural product quality and market development program; $200,000 for technical assistance to agribusiness; $5 million for a food science laboratory at Cornell; $20 million for a biotech laboratory there. We did this at the same time we enacted the largest tax reduction program in the State's history. But if deductibility is eliminated the practical result will be that we will have fewer dollars to spend on agricultural programs like those I mentioned; fewer dollars to help our farmers remain competitive in the international marketplace; fewer dollars to ensure the economic health of rural communities, and not just in New York. The chairman of your Agriculture Committee, Congressman de la Garza, recently stated that the administration's version of tax reform, "might mean more taxes, especially for livestock and dairy producers, and much less incentive to invest in facilities like orchards and vineyards."

Further, the Reagan proposal gives a tax credit to those who invest in Libya or South Africa, but not to those who invest in businesses in Iowa or rural New York. It will hurt a broad spectrum of Americans, of farmers as much as city dwellers.

The farm bill in its present form, together with the Federal deficit and the proposed elimination of deductibility would, I believe, subject many dairy farmers to reversals that could put them out of business.

There is one school of thought that looks at that possibility and says, "as far as farmers go, let the market decide, the strong will survive." We can bail out big banks like Continental Illinois, this thinking goes, but farmers have to make it on their own.

We are not of that school in New York and I do not believe that Congress is either. Through most of our history, agriculture has not operated on the basis of a totally free market system. The Federal Government has intervened frequently for the general good.

Granted, the interventions have at times produced unwelcome results. Programs designed to avoid shortages have produced huge surpluses. Others designed to lower costs to the Government and the taxpayers have, in fact, cost us more than the programs they replaced.

Despite these failures I believe we can design a farm policy that works, and undertake the long range planning that is critical to the future of agriculture in our country. There is no community, no household, no individual in the United States that is untouched by the economics of farming and food production.

We do not have to settle for a wasteful and counterproductive farm policy any more than we have to settle for defense policies that squander taxpayers' money, or tax policy that favors a few over the many, or policies of Government spending that leaves us with a $200 billion deficit.

This Nation has already demonstrated that we can maintain American agriculture without bankrupting ourselves. We have shown that urban States can contribute their resources to a Federal policy that helps farmers, and that farm States can help sustain Federal programs which offer hope to people in the ghettos of our cities.

We have proven that we can be competitive and compassionate at the same time. We have done it before and with your leadership, I believe, we can do it again. Thank you.

Mr. COELHO. Thank you, Joe, for an excellent statement. Please pass on to the Governor my kind regards and wish that he had been here.

Mr. Horton.

Mr. HORTON. No comment except to say that I too want to join with the chairman in thanking you, Mr. Gerace, for being here. I know you were scheduled to testify and then the Governor indicated that you would step aside so he could be here. We are very sorry that he could not be here. I think it is an excellent statement and made some very cogent points and I certainly agree with him in regards to deductibility of those State and local taxes.

That is a very important consideration as far as our States are concerned and I think he has woven it in here as a very integral part of what could happen to this State in agriculture if that is followed as far as the tax reform proposal is concerned. I would also ask that you convey my best wishes.

Mr. COELHO. Mr. Martin.

Mr. MARTIN. Yes, just briefly. I thank you for being here and I salute you for the great job that you have done. I hope you will relay my best regards to the Governor. As a commissioner, you have taken a deep interest in what the Federal Government does as far as legislation is concerned, and while there are any number of alternatives or theoretical alternatives to be talked about all too often the question moves down to the Members of Congress, State senators and assemblymen, of picking among alternatives.

When you see the two basic alternatives that have been discussed here today, the committee bill and the Farm Bureau bill, where the commissioner and the Governor stand, we'd like to hear any comments you might have as to which one and why.

Mr. GERACE. Generally speaking, we are closer to the Farm Bureau philosophy and I would have to express that. We feel that that will do the job and will not cause farmers to make the sacrifice again.

They have already made their sacrifice, frankly. As Mr. Griffen pointed out they have already made their contribution and their efforts to try to reduce the deficit in the last couple of years. They have made sacrifices beyond those made by any Americans, and so we do feel compassion for the position that the Farm Bureau has taken.

Mr. MARTIN. I think, Commissioner, and I would hope as we go down the line the next 3 or 4 weeks we can try to beat the deadline that has been imposed on us so we would have the benefit of your imput.

Mr. GERACE. I definitely will do it. I appreciate your interest and I am really grateful that all of you have done one great thing, and that is to spotlight the fact that agriculture is important in New York. We need that spotlight.

Mr. COELHO. Mr. Eckert.

Mr. ECKERT. Commissioner, was your answer intended to mean that the Governor endorses the Farm Bureau bill?

Mr. GERACE. We have not endorsed this specific bill. We just support the concept of a price support demand adjuster as proposed in the section of the American Farm Bureau proposal.

We also believe that Senator Leahy's bill, which would provide for a 2-year freeze in the pricing support level and the adoption of a supply-demand adjuster on October 1987, is really worthy of your consideration.

We think it is a good proposal. Cornell indicates that a support price of $11.60 per hundredweight will result in CCC purchases of about $5 billion, and that seems to be the point that everyone agrees is a good point.

Mr. ECKERT. But, in the Governor's statement he talks in general terms about what the farm policy ought to be. In general terms, does the Farm Bureau bill in his judgment meet those goals?

Mr. GERACE. I said it does, philosophically. Mr. Eckert, you know that the Governor speaks well for himself, and I would rather that he specifically address your question.

From my point of view, if I had been given a choice, my choice would be to endorse that price support supply-demand adjuster concept as is included with the Farm Bureau bill and the 2-year freeze that Senator Leahy has recommended.

Mr. ECKERT. But at this point, the Governor does not endorse the Farm Bureau bill, is that correct?

Mr. GERACE. He endorses the concept. That is the best I can tell you.

Mr. ECKERT. Not the bill?

Mr. GERACE. If the Farm Bureau bill——

Mr. ECKERT. But he does not endorse the bill. What about casein. You made a reference to say consideration be given. Is the Governor's position to endorse or oppose the Congressman's bill, say——

Mr. GERACE. I think his position would be very much like Congressman Coelho's and that would be the position he would take on it.

Mr. ECKERT. He endorses it?

Mr. GERACE. I would say so.

Mr. ECKERT. I noticed the language was careful it just used the word consideration, but it does not use any language that is specific on either the Farm Bureau bill or on that.

What about cargo preference legislation to help American farmers be a bit more competitive in marketing overseas. There is no reference to that.

Mr. GERACE. No, there is not. He addressed himself to what he considered were the immediate problems of the dairy industry and that is why he supports the idea of a supply-demand adjuster and moving slowly before attempting to eliminate the price supports that are necessary to make sure the farmer gets paid adequately for——

Mr. ECKERT. That's fine. We need to speed along a bit. More important than that question would be the diversion program. Is the Governor's view generally in concurrence with the views expressed here by most dairymen of the State of New York that New York got the short end of the stick on that, that we lost $1 for every $2 put up, and that really what we were doing was subsidizing dairy farmers elsewhere. It was not particular. Is that the Governor's view?

Mr. GERACE. I think the Governor's view is, and my view, is that to have the diversion program built in—a mandatory one built in will encourage just the opposite of what the objective is. What it will do is encourage some people to move their base up to a point to when the diversion program goes into place they would be in a better position.

We are concerned about that incentive to build base and basically we feel that the supply and demand adjuster approach will actually not necessitate a diversion need and as you have proven in the past, if it looks as though the supply-demand adjuster does not work, Congress could, at that point, adopt a diversion program that that was the only remedy left to it.

Mr. ECKERT. Thank you commissioner. I appreciate the difficulty of being a commissioner and having to speak at the last moment on behalf of the absent Governor, but I would certainly appreciate it if you could ask my friend Mario Cuomo to address those specific questions, perhaps for the record or at least to me in a letter I would be grateful for those answers. Thank you.

Mr. COELHO. Thank you Mr. Eckert. Mr. Boehlert.

Mr. BOEHLERT. Thank you Mr. Chairman. Commissioner Gerace it is good to see you here. Two messages I wish you would convey to the Governor. One, on page 6 of his testimony when he says that,"I believe the administration's dairy proposal in its present form is too radical," you can convey to him that the New York congressional delegation feels the same way on a bipartisan basis. And second, I would convey to him this message, that I have never seen a greater degree of unity of opinion among our farmers than now exists today and I am one who the last time around supported the diversion program.

Our farmers were divided. I sought their guidance and it was a tough call but I did support the diversion program as a temporary program, hopefully, to get us out of the mess we are in. I have seen the results of that. On the one hand my district is the largest participant in the diversion program in the State of New York—448 farmers, $10 million they have taken out of it. I see overall it has not worked to the advantage of New York or the Northeast and therefore I do not seek to continue the diversion program.

I would hope that the Governor might be a little stronger in his statement on that. Thank you, Mr. Chairman.

Mr. GERACE. I think he respects the position taken by each of you and by Chairman Coelho, that if you do not agree with something you really need to come up with an alternative.

We feel the alternative we have come up with will do the job.

Mr. Coelho. Joe, thank you very much, and again, would you express to the Governor my appreciation for him submitting testimony. I would just like to state at this point that it is necessary for the members of the New York delegation that are concerned about the program that has been adopted, that they do not become unanimously opposed and instead get another program that results in putting their dairy farmers into bankruptcy.

So I hope that my colleagues do not get themselves too far off the record on this until we have a chance to pursue it. But again, thank you very much Joe.

The next panel will be made up of Mr. Redmond, Mr. Lyon, and Mr. vanLieshout.

Congressman Boehlert, if you care to make a statement right now for the record, we will be pleased to have you.

STATEMENT OF HON. SHERWOOD L. BOEHLERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Boehlert. Thank you, Mr. Chairman. I am privileged to live in New York, so 52 weeks a year I listen to and talk with our dairy farmers. I do not want to infringe on your time because I think the messages they are going to convey to you here today are extremely important.

The vital issue, dairy farming, is vital to New York and I am looking forward to the expert testimony we are receiving here today, and I ask permission that my statement be included in the record.

[The prepared statement of Mr. Boehlert appears at the conclusion of the hearing.]

Mr. Coelho. Your statement will be made a part of the record, and we appreciate it very much. We particularly appreciate your brevity.

Mr. Redmond, you may proceed.

STATEMENT OF RICHARD E. REDMOND, DAIRYMAN, SCIPIO CENTER, NY

Mr. Redmond. Thank you Mr. Chairman. My name is Dick Redmond. I have a dairy farm about 9 miles south of Auburn and I have two sons working with me. I would like to express my appreciation to the subcommittee chairman, Congressman Coelho, for coming to Auburn and holding a hearing. Especially in a Republican district which reflects, I believe, a nonpartisan anxiety to resolve a nonpartisan problem called agriculture.

I will speak to three issues. First I want to talk about the problem with casein and I will offer a solution which I have not heard discussed yet. Second, a comment on the diversion program and a recommendation and third, I have a position of a Northeast dairy farmer as it relates to his lack of influence on national dairy policy and I have identified some priorities for that. That is mostly for the other Congressmen who are with you.

Mr. Coelho. Well, you have 5 minutes to do that all.

Mr. Redmond. In the matter of casein, the heart of the problem is trying to draft domestic legislation which will not conflict with international agreements, such as GATT. The ever-increasing imports of casein, which are not under quota, and replace domestically produced nonfat dry milk, if not controlled, will wreck any constructive effort to deal with the 1985 farm bill.

In my opinion, the Dairy and Poultry Subcommittee should seek to establish a program similar to a national milk marketing order for casein. Users of casein, manufacturers and food users should pay into the Commodity Credit pool an amount per pound yet to be determined.

It is only fair that casein importers, who have a price advantage with foreign governments subsidizing casein, share the burden of stablizing the domestic dairy industry program.

In regard to the diversion program, we recently experienced the diversion program—I think it was really unfair to the younger farmers. Although technically all farmers were eligible, the younger farmers with the heavy debt load did not have the option to participate compared to older farmers or more established businesses.

It is essential that a different source of funding for a restructured diversion program be found other than that of the young farmers' income. It might be possible to finance a limited fund with moneys generated from the national order for casein. That is two out of three.

Mr. COELHO. Good. I happen to agree with you so far. Go right ahead.

Mr. REDMOND. The third one, the Northeast dairy farmers do not have a unified voice because of a continuing intraregional separateness, which is maintained through State laws and regulations, limited Federal orders, and customs or beliefs which serve local constituencies. This combination of factors has provided a rock-hard provincialism which is the primary force for maintaining disunity in the area.

The core problem is that about 8,000 dairymen or 50 percent of the Federal Order No. II cooperative members or farmers are not members of any cooperative. This is probably the poorest record in the Nation. The situation can be reversed by adding amendments to Federal Order No. II, thereby changing its current pooling provisions.

Unfortunately, the consensus for change has yet to be recognized and agreed upon by those people in leadership positions responsible for proposing such changes.

Mr. Chairman, that is three out of three. Thank you.

[The prepared statement of Mr. Redmond appears at the conclusion of the hearing.]

STATEMENT OF DAVID LYON, DAIRY FARMER, WAYNE COUNTY, NY

Mr. LYON. My name is David Lyon. I own a family dairy farm in Wayne County which is just west of here. I believe in the Dairy Program that we have had in the past.

Although I do not feel the need for many of the Government programs we have today, agricultural or otherwise, dairy farming is unique and it takes a relatively huge capital investment and cannot be turned off and on at will.

The CCC purchase program is a good way to assure consumers of an adequate supply of milk at a reasonable cost. This cost includes both the price of the milk and the cost to the taxpayers of the program.

National polls have been reported in the press to have shown that consumers do not begrudge farmers some subsidy for providing stable moderately priced food.

The Dairy Program we have had over the past years has served us well. However, the parity concept is outdated because of increasing productivity of the farmers.

This concept of generating surplus milk has become burdensome. The diversion program of 1984 was an attempt to solve this.

As far as I am concerned this program did not work. It was a short-term solution for a long-term problem. It is also grossly unfair to producers in that some farms were able to benefit greatly while other did not benefit at all. To accomplish fairly a decrease in production we need a long-term plan that will keep supply and demand balanced over the years.

And, it will enable dairy farmers to formulate long-term plans based on what is law and know what they can expect for price.

The simplest means, I feel, of accomplishing this is to adjust the support price up or down based on expected CCC purchases. I would suggest 25- or 50-cent adjustment annually or semiannually based on expected CCC purchases.

This would allow the dairy industry to plan and adjust with the least amount of disruption. First, I do not feel it would take too much downward adjustment in prices to get supply and demand back in balance.

The coming drop in support price to $11.60 on July 1 is the first real decrease in price we have had in some time. Perhaps that is all it will take, because lower prices, if reflected at retail, should stimulate demand, especially with the increased advertising, if we can keep it going.

The other thing is, many of the overleveraged or uncompetitive farmers are now losing money. It is only a matter of time before some have to leave farming one way or the other.

In summary, I feel a need for a long-term simple plan to help the dairy industry adjust and maintain a steady adequate flow of milk to consumers.

The plan will be fair to the people of the United States and to the dairy farmers. Thank you.

Mr. Coelho. Thank you very much. You are being very cooperative here today.

STATEMENT OF HENRY vanLIESHOUT, DAIRY FARMER, VERONA, NY

Mr. vanLieshout. Members of Congress, I am Henry vanLieshout from Verona, Central New York and I operate a 130 cow dairy with my wife and sons.

I feel very privileged as a farmer to speak directly to you, our highest authority in Congress. No other country in the world where we could do this.

First of all, I would also like to thank Mr. Horton, Mr. Boehlert, and Mr. Martin. In cosponsoring this bill you sure have acted in the best interest of both the dairy industry and our country. Thank you.

With the dairy business as it is today, there is simply no way one can make any long-range planning for a dairy operation. Yet the investments are very costly and have to be made on long-term projections.

A lot of our problems stem from the large national debt. We ask you here again to reduce the size of the Federal Government and Federal deficit, not by increased taxes, but by cuts across the board.

We farmers cannot compete with high interest rates. For every 1 percent in declining interest rates we U.S. farmers save $2 billion on interest expenses. I hope you keep that in mind. For us dairy farmers, the No. 1 stabilizer in our industry has always been and still will be the price support program.

It brings a balance in supply and demand of dairy products. However, by not handling this mechanism properly, we got in a mess of overproduction with all the bad things that followed.

I believe very strongly, that we can correct the costly dairy surplus to the right level through a combination of one, price support level; two, continued promotion; and three, through much fairer trade policies that restrict subsidized imports.

Imports from casein alone, as I said earlier this morning, accounted for almost three-quarters of our surplus in milk equivalent.

In the Dairy Price Support Program I would like to see milk supported at 90 percent of the previous 3-year average price of all milk, and have this price very closely tied to CCC purchases.

I think it should also be updated every year. Adjustments made up and down based on Government purchases, with a stand-by authority of the Secretary of Agriculture, for further downward adjustment if Government purchases exceed the 8 billion pounds of milk equivalent. The element of 8 billion pounds of milk, I would like to elaborate on that. At 50 cents per pound—it would cost the Government $1.2 billion. Our present cost to the Government for last year was $1.7 billion and you asked for a $500 million savings so if you take away $1.2 billion from $1.7 billion there you are with your $500 million. The element of supply and demand works at its fullest under such a program, equally for all. It guarantees great stability in production, consumption and prices of dairy products, both for producers and consumers.

The Milk Diversion Program—this program was one of the poorest measures ever taken to correct the over supply of milk. If we speak about regionalism, this was it.

The Northeast paid about $160 million, while it only received $50 million in diversion payments. Farmers here in the Northeast were paying $110 million to other parts in the country, while we were experiencing a shortage of milk.

But besides that, paying some for not producing is the same as unemployment in any other sector in our economy. It is just another form of farmers on welfare.

It has no incentive for progress and all our research and know-how on being productive are laid idle and are a deadly loss in competing with our products in the world market.

And I say that any country that pays its people for not producing is undermining the health of its economy and is doomed for trouble later on. So, please, never anymore paid diversion plan.

The School Lunch Program—I regret the poor regulations of the USDA that says only low-fat, skim milk or buttermilk can be used for the school lunch program. Low-fat and skim milk have no taste to me and not to the school children either, I am sure.

It will make our school children revert to soft drinks, which is a loss for our dairy industry and above all, a loss of good health for our school children.

I admire the work of our National Dairy promotion and hope we can change our USDA's regulations so our children can have again the opportunity of drinking fresh whole milk.

And, last, investments in farms as tax shelters—we have seen, in the last few years, a lot of money being taken away as tax revenue from our Government and invested in farms, especially in dairy farms on the east coast.

The object of the investor is many times not to make a profit or even lose money on their investment. I, as a dairy farmer, have to make a profit to stay in business and cannot compete with these outside investments. They further ruin our family farms and markets.

Perhaps you people in Congress can do somthing to keep these outlandish investments away from our farms in your new tax reforms. Thank you.

[The prepared statement of Mr. vanLieshout appears at the conclusion of the hearing.]

Mr. **Coelho**. Thank you very very much. Mr. Horton.

Mr. **Horton**. I do not have any questions. I just want to thank each of the gentlemen who are really experts in this matter. They are all dairy farmers and I just want to thank each one of you personally for taking the time and for keeping your statement at the 5-minute level. Thank you.

Mr. **Coelho**. Mr. Martin.

Mr. **Martin**. Just briefly, the last gentlemen that testified, the last line in his statement—he hopes we can take care of that in the new tax reform. I just wanted to point out, and I think the chairman and others will agree, that there will be a lot of cows and milk before we have a final provision. I'd like to say to Mr. Redmond that the question you had was a very, very good idea concerning casein.

I think part of the problem was using a substitute. Maybe they would give—be made to give—us a program. I would just ask Mr. Redmond if he might not think that in the long run it would be a good idea to address that, not just to imports, but to all casein.

Mr. **Redmond**. Well, all casein would be under a Federal order for casein and it would be classified. That material that is used for glue probably would not have any payment into the pool.

Mr. **Martin**. What I was thinking about was not so much the idea, but if you are dealing with all casein it might be a form of revenue and certainly is not discriminatory toward imports——

Mr. REDMOND. That is right.

Mr. MARTIN. It relates to all cases. Therefore, it gives us a way to go.

Mr. REDMOND. That is right.

Mr. MARTIN. Thank you, it is a very good idea and I appreciate it.

Mr. COELHO. Mr. Eckert.

Mr. ECKERT. No questions.

Mr. COELHO. Mr. Boehlert.

Mr. BOEHLERT. All three panelists seem to be strongly opposed to the diversion program and have so stated very eloquently in very strong language. I am not quite sure it is as disastrous as you would make it out to be.

I think the jury is still out. It probably did not work as well as intended, but I think it probably worked better than any of you would acknowledge.

I think the jury is still out. Yes, Mr. Redmond, do you have a comment.

Mr. REDMOND. Yes, I think I am not opposed to the diversion program. I think I recommended that it be modified or that there be some adjustments made to it. That was all.

Mr. BOEHLERT. OK. Thank you very much.

Mr. COELHO. I appreciate that comment very much, Mr. Redmond. I think one of the things that we constantly have to be aware of, and I will say it over and over again, is that we are all concerned about the deficit situation in the Federal Government, and agriculture needs to contribute its share as well.

We have been asked to do $500 million. In order to do $500 million—I do not know of any program that would reach that level. The Farm Bureau program is, according to the Congressional Budget Office's figure, is $1.6 billion the first year.

So there really is not any way to get here unless you do something to help out the dairymen in that transition period.

If somebody can come up with something better than the diversion program I would support it because I am opposed, personally, to the diversion program. If somebody could come up with something better I would go along. I have not heard of anything better yet, and I would hope that people would give us a chance to work something out before they start being negative.

We want an open dialog as opposed to strong adamant decisions.

Mr. VANLIESHOUT. Mr. Coelho, the diversion program is not doing anything as far as the law of supply and demand. Your price support program is the ideal mechanism, and if we lower it gradually I am sure that by next year——

Mr. COELHO. But you have to cut $500 million dollars out. You cannot lower it gradually and cut $500 million out. I agree with you. Nobody disagrees that it is where we should be. It is how do we get from here to there, that is our problem. That is the only disagreement.

Mr. VANLIESHOUT. By lowering the price gradually.

Mr. COELHO. Yes, but how are you going to get $500 million out? You cannot get $500 million out. Thank you very very much. I appreciate the panel. The next panel will be Mr. Fishel, Mr. Walldorf, and Mr. Porter, would they please come up. Mr. Fishel you may proceed. Dave tells me that you are a great American. He also tells me that you are from his district and that might have something to do with it, but he says you are a great American.

STATEMENT OF DAVID FISHEL, DAIRY FARMER, ST. LAWRENCE COUNTY, NY

Mr. **Fishel.** First of all I would like to thank Congressman Coelho for bringing the hearings to New York and the rest of the congressional delegation in New York showing their concern for the dairy industry.

My name is David Fishel. My wife and I operate a dairy farm in St. Lawrence County near Ogdensburg. I will abbreviate my speech here for the sake of brevity.

We are at a critical state in American agriculture and the major questions to be answered are the following four.

One, how to insure a healthy agriculture and preserve the family farm.

Two, how to reduce Government expenditures on agricultural programs.

Three, how to insure an adequate and quality food supply for our own consuming public.

Four, how to meet the needs of and compete with the world export market demands.

I feel that one bill before the Senate and House of Representatives provides solutions to these and other questions.

One of the most attractive concepts of S. 908 and H.R. 1965 is that it would allow for the move toward a more market-oriented agriculture.

The basis for our entire economy is to let supply and demand dictate the availability and prices of commodities. Agriculture should be no different.

We do however need a sort of safety clause or net, if you will, to help farmers over the transition and away from supply imbalances created by previous Government farm programs.

A dairy support level of 90 percent of the 3-year average and price adjustments with changes in Government purchases to correctly signal dairymen of the market conditions would accomplish this goal and yet maintain a healthy agricultural base, treating all dairymen nationwide with equity.

In response to recent press on your committee support for the dairy unity bill, the question whether this bill represents the thoughts and desires of the majority of dairymen in this country and particularly in the Northeast is still a debatable issue.

Any legislation should give consideration to these areas of the United States where production runs to the greatest excess.

This is a regional problem more than anyone on your subcommittee seems to admit publicly. The provisions in H.R. 1965 that call for an export bonus incentive could help to increase sales of U.S. exports thus reducing surpluses and giving and saving taxpayer dollars. Recapturing lost export markets would greatly benefit not only U.S. agriculture by providing more potential for progress, but would ease the economy in general by providing a base for much improved balance of trade. H.R. 1965 does go hand in hand with deficit reduction efforts and fits well within spending constraints agreed to by the White House. The President and Members of Congress already indicated support for H.R. 1965—shows that there is considerable support and it is economically feasible.

On a separate but related topic I would like to make a few comments about agricultural credit.

As a farmer who borrows from commercial lenders and pays the going rate of interest on both long-term debt and short-term operating loans I am very disturbed by the lack of control and discretion used to make money available to farmers who have neither the knowledge nor the desire to be successful in today's technical and economically difficult times.

Well managed operations funded by commercial lenders and paying higher interest rates can no longer compete in the marketplace with so-called farmers kept in business with low-interest loans funded with taxpayer dollars. I must not only compete in the marketplace with their products but pay the bill for their lack of management ability. Somehow FmHA loans must be tied to some type of progress schedule and a timeframe established and rigidly adhered to to encourage FmHA borrowers to shift away from FmHA funding to commercial lenders.

If an FmHA borrower cannot qualify for a loan from a commercial lender at this time his FmHA loans should be terminated rather than continuing him into a state of nonrecovery which cost more taxpayer dollars.

This program has grown to such proportions and affects all of agriculture and all taxpayers, enough I feel, it deserves consideration in the development of a new farm package.

All the points I have mentioned here will strengthen U.S. agriculture, bolster the farm economy, strengthen export markets, and provide quality food at a reasonable price to U.S. consumers while at the same time attribute to a healthier U.S. economic climate.

Thank you again for the chance to address this hearing.

[The prepared statement of Mr. Fishel appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much, Mr. Fishel. The next witness is Mr. Ed Walldroff.

STATEMENT OF EDWARD WALLDROFF, DAIRY FARMER, AUBURN, NY

Mr. WALLDROFF. My name is Ed Walldroff. Along with five brothers, a brother-in-law, and my father, I am involved in a 150-cow dairy and 2,000-acre crop farm.

A major farm equipment dealership is also included in our family business. I do not profess to be an expert on milk marketing or the economy.

However, I do have some personal views on what we need from Federal legislation so agriculture can survive. The three major points I would like to address include, one, milk price support systems; two, grain export competitiveness; and three, agricultural financing.

With regard to milk price supports, I very strongly favor the American Farm Bureau Federation proposal. That being setting support price at 80 percent over a 3-year average with further adjustments being made if Government prices rise or fall beyond a given point.

The cost of producing milk has gotten cheaper recently and, I feel, will continue to into the future. The upcoming new technology is going to have dramatic effects on feed production costs. This coupled with declining interest rates and cheaper feed grain prices has got to lower the cost of production.

The consumer groups are well aware of these facts and raise a very fundamental question. Why has their costs not reflected these trends?

I am convinced that without lower price supports, milk output will rise to a point triggering another diversion program with the present proposed legislation.

I strongly oppose any diversion program for the following reasons:

One, no price reduction to consumers, therefore, no increase in consumption.

Two, it still allows the Government to be a major market for milk production. This, in my opinion, is a false market.

Three, I refuse to pay an assessment to keep my inefficient neighbors in business. If I am going to lose revenue through an assessment, I would rather take my chances getting less for my product and giving the consumer a chance to purchase more.

Four, it is a complicated and quick-fix solution to a long-term problem.

Five, more farmers will take part in a second diversion program as a last resort, raising the cost considerably.

Six, many areas of this country would have and have had tight milk supplies on a seasonal basis creating an over kill situation under the diversion program.

The bottom line to all of this is that some farmers may have to go. Is this bad? We, as farmers, see the lumber, steel, auto, manufacturing, or processing concerns become noncompetitive.

I am not convinced yet that all poor managed and inefficient farms have been weeded out. I want a chance to compete against these farms for a market while providing the consumer with dairy products at a reasonable price.

A diversion program will not allow this process to happen and for that reason I am against the plan. The second point I would like to address here today is grain export competitiveness.

I strongly feel that the USDA needs more authority and guidelines to go out and recapture our lost export market. The soybean issue I feel is a good example of what I am referring to.

Times have changed in the world grain export market putting the United States in a back seat to other countries. This occurred because of unrealistic target prices along with an old grain export plan.

Agriculture also needs some incentive programs to ensure quality to overseas customers. Some of our market has been lost due to poor quality shipments.

The third point I would like to address today is agricultural financing. Agricultural financing currently is in some real trouble.

FmHA is under attack. Federal land banks have closed while tax shelters are compounding the surplus problem. I, for one, feel that the FmHA program, in its present form, has outlived their purpose.

The system is too slow and inefficient. I would favor a plan to administer a like program through the private sector with the Government providing the funds, one or two points below current rates, letting the banks administer the loans.

Outside financing, I feel, is healthy for agriculture providing it is not through tax shelters. I feel we must close the tax-shelter loopholes as this is only compounding the overproduction problem, while putting the 50 cent dollars to work against competitive family farms.

In conclusion, in writing new farm bill legislation, let us not overlook the factors already at work for us. One being promotion of dairy products. I highly support national promotion of our products and also favor like programs for beef.

Our past support programs referring to milk, have indeed worked well for 30 years. I have no reservations that given time and more market-responsive support prices, agriculture can work itself out of surpluses while still remaining viable. Thank you gentlemen.

Mr. COELHO. Mr. Horton.

Mr. HORTON. I have no questions. I just want to thank both gentlemen for testifying. I know you came from long distances and we appreciate it very much. Congress gets copies of these hearings so other Members of Congress will have an opportunity to read and know what your views are on these very important matters. Thank you very much.

Mr. COELHO. Mr. Martin.

Mr. MARTIN. I want to thank both gentlemen for coming down from the 26th district. I know it is a long haul and I know you spent a lot of time trying to get your point of view across, and I appreciate it. Mr. Walldroff do you have an extra copy that I can have?

Mr. WALLDROFF. Yes I do.

Mr. MARTIN. Thank you for bringing up something that has not been dealt with in this particular hearing.

Mr. COELHO. Mr. Eckert.

Mr. ECKERT. No questions Mr. Chairman.

Mr. COELHO. Mr. Boehlert.

Mr. BOEHLERT. No questions Mr. Chairman.

Mr. COELHO. Thank you very very much. I appreciate your testimony. The next panel will be made up of Mr. Willson, Mr. Poole, and Mr. Moran. Would you please come forward?

STATEMENT OF DELBAR WILLSON, MEMBER, BOARD OF DIRECTORS, DAIRYLEA COOPERATIVE

Mr. WILLSON. I operate a 600-acre, 140-cow dairy farm at Vernon Center, NY, which is between Syracuse and Utica, in Oneida County.

This morning I am representing the Dairylea Co-op and my good friend John D. Plumley who is our county executive.

Dairy farming has been a lifelong occupation for me. I believe my interests are as broad and my information about what is going on in the world is as current as most citizens, farm or nonfarm. I am a businessman and I try to operate my farm as a profit-producing business.

I certainly agree that farming can be described as a "way of life," but first and foremost, it is a business.

Farmers have made headlines in recent months because we are in trouble. Some of the trouble is a result of business judgments which turned out to be less than successful.

A considerable part of the trouble is the result of things over which we farmers have absolutely no control—the value of the dollar, the importation of subsidized competitive products, runaway interest rates, the monetary policies of the Federal Reserve, the weather, changing political philosophies about agriculture.

I guess you would have to say that no matter how you want to assess the blame, the fact is that agriculture's problems are everybody's problems.

I am here today to ask you as Members of Congress to use your influence when the 1985 farm bill is written to urge moderation. Our industry has made tremendous strides in reducing milk production already.

We have cut CCC costs virtually in half. Economic pressures on dairymen are so severe that it is almost inevitable that further reductions will occur.

Certainly, we all know that the ending of the 15-month diversion program, there will be a temporary upturn in production. Many people, unfamiliar with the financial problems of producing milk, will point in this surge in production as an excuse to write dairy provisions in the farm bill that will impose such severe financial burdens on dairymen that production will be forced down, through farm sellouts and bankruptcies, in a very short time.

There is no question that a crash program for cutting the support price or even eliminating support purchases would have the desired effect.

There is also no question that the long-term interest of the American public does not lie in destroying one of its most important industries.

Here in the Northeast, we put together, many months ago, the 1985 Farm Bill Committee. It is made up of almost all of the dairy co-ops and general farm organizations in the Northeast region.

This committee has unanimously agreed that the farm program that would best serve the public and the dairy industry should be based on four principles: One, the support price and support purchase program should continue; two, the level of the support price should be tied to the rate of the CCC purchases. In other words, it should reflect the supply and demand situation; three, the support price should be based on a new dairy parity or other economic formula that reflects both the cost of production and the productive efficiency of modern dairy farms; and four, the national milk promotion program should be continued by all means.

Most of us believe that a dairy program that properly implemented these concepts, taken in conjunction with economic pressures that already exist, will do the job that must be done.

All we ask is that Congress have patience. Milk surpluses were not achieved overnight. They are declining must faster than they were created. Do not be swayed by those who want to force the issue too quickly. That road could lead to disaster.

I should comment at this time that here in the Northeast, farmers very generally do not support the concept that a diversion program is needed to provide a means for controlling milk production. We believe that while the diversion program that ended last March 31 contributed to reducing costs of the dairy purchase program, the burden was unequally borne by the Northeast.

We dairy farmers get particularly angry when we cannot even get Congress to legally identify casein as a dairy food, which it is, instead of a chemical so that we can get some reasonable limitations imposed on casein imports, most of which are subsidized.

And we really do not want to hear all the easy arguments about import controls creating international wars. Those trade wars are raging already and as usual, Uncle Sam, is trying to set a good example at the expense of his own people.

American dairy farmers are supportive of efforts to cut the budget and reduce the deficit. We are not asking to be exempted from participating, painful as it may be.

We ask that the program be reasonable, humane, and be allowed to proceed at a pace which will not capsize the boat while we are trimming the sails.

Thank you for giving me the opportunity to express my opinions.

[The prepared statement of Mr. Willson appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much, Mr. Willson.

STATEMENT OF GEORGE POOLE, PRESIDENT, CORTLAND BULK MILK PRODUCERS COOPERATIVE OF CORTLAND COUNTY

Mr. POOLE. Mr. Chairman, Members of Congress. We, the dairy industry are certainly honored to have you here trying to understand our concerns as a dairy industry.

We appreciate that very much. My name is George Poole. I am a dairy farmer. I am also president of Cortland Bulk Milk. That is about a 200-member co-op.

We market about 24 million pounds of milk in our New York City area for our dairy farmers. The dairy industry is a very stressed industry.

The present situation is extremely bad, especially for those who have not been in business long enough to establish themselves.

I see this situation forcing many of these farmers and agriculture-related industries out of business which in turn will mean the loss of employment for many others.

Since each dollar of farm income is spent five times in the community, the loss of farm and agriculture-related income will have a great impact on the economy of the whole community as well as the country.

Those of us who are managing to hold on to our businesses are existing by living off our inventories. I believe you understand our dilemma. What can be done about it?

Over the past few years our market has been heavily subsidized, causing an imbalance in supply and demand. We are producing for the Government, not for the marketplace.

We have seen a significant increase in this practice over the past 10 years. We were told by the Government to gear up to feed the world.

We geared up to feed the world which could not buy our food. As a result, there is now overproduction of milk and reduction in farm income. At the same time we are faced with ever-increasing costs.

What can be done about this problem? There has to be a way to get back to the marketplace as controlled by supply and demand.

As I have indicated before, this situation did not come about overnight. It came about over the past 10 years and cannot be resolved in 1 year. If an attempt is made to do this, it could result in a hungry world.

This is one of my greatest fears. That we of this country become a hungry country and become dependent upon other countries for our food.

We need your help to develop a dairy policy for this country which will get us back on the road to producing for the marketplace.

Support prices to the dairy industry are like a crutch to a man with a broken leg. If the crutch is yanked away before the leg is healed, the results would be disastrous. If the price supports are totally withdrawn, the results could be disastrous to the industry. Not only to farmers and to agribusinesses, but to the Nation as a whole.

We would ask the Government to become less involved in a slow and gradual way. We need a long-range policy so producers and consumers know what to expect from the Government.

Our trade policy has to be looked at very carefully. Why import more dairy products when we have overproduction in this country?

These are some of the things, gentlemen, that I see, need to be done in order to have a healthy industry. The approach, I suggest, is not an easy road for the Government or for the agricultural business to travel.

Some people will be out of business no matter what the approach. Government will be criticized for this approach, but I feel it is an honest approach and one that will benefit everyone in the long run.

Thank you very much.

Mr. COELHO. Thank you Mr. Poole. Mr. Morse.

STATEMENT OF BERT S. MORSE, MASTER, NEW YORK STATE GRANGE

Mr. MORSE. Mr. Chairman, Congressmen, it is a pleasure to be here today. We appreciate the opportunity to share some thoughts with you.

I am Bert Morse, an operating farmer, dairyman, in Central New York as well as the elected head of the New York State Grange—a 30,000-member organization located in 500 communities across this State.

Our policies began at the local units, if approved, to the county units and then on to State and national. I also serve as an officer of the National Grange.

The New York State Grange testimony before the House of Representatives' Committee on Agriculture, at a hearing May 17, 1985, in Syracuse, NY, we strongly emphasized the following: (1) The need for a balanced budget and reduced Federal spending. This is closely related to the value of the dollar and has a direct bearing on foreign trade and balancing payments; (2) the well-planned and executed program to bring the trade deficit back into the right relationship; (3) an aggressive foreign trade policy to enable American farm produce to reach world markets; (4) the elimination of unfair foreign competition due to policies of other governments; (5) a strong domestic promotion program, financed by the industry itself. The current Dairy Promotion Program is an illustration of this to increase home markets, to make the consumer aware of nutritional needs and the wise use of spending dollars for food.

We will for the sake of time, say that these objectives must remain most viable. Each member of the New York State delegation in Congress received a detailed outline of these goals.

I will now turn to other concerns that you may understand that if a problem is not dealt with, fully and directly, the spinoffs are numerous and serious.

As of June 14, 1985, in making decisions on proposals for the 1985 farm bill, in the Senate of the United States, frequently a quorum was not possible to conduct business.

It seems that marking time is taking place until the Conference on Budget Deficit Reduction reaches agreements on the amount of money available for the farm programs of 1986 and beyond.

This is no time to play politics. The House of Representatives subcommittees on agriculture have reached agreement on several titles of the new farm bill.

This is a major step forward but they continue, also, to ask, is it within the budget? The Dairy Committee of the New York State Grange has long asked for a redress to the case-in import issue. These imports have a serious impact on domestic dairy programs; and with the dairy support program now in force, it costs the Government, therefore, the taxpayer, considerable sums of money.

Imitation products displace genuine dairy products, forcing those products to be sold to the Government instead of the consumer.

Previously, I referred to spinoff consequences. Here is an example. If casein, imported from countries known to be infected with hoof-and-mouth disease, was accidentally fed to livestock, it could cause an epidemic that would cost both the livestock producers and consumers millions, yes, perhaps billions of dollars.

Grange supports H.R. 1629, and urges your committee to actively seek the passage of this proposed legislation, which quota levels would be set at 50 percent of the last 5 years' average imports.

One additional request concerning the dairy industry—Federal marketing orders must be maintained to insure the orderly marketing of milk.

These requests need not cost the taxpayers any tax dollars. Again, this is an example of agriculture willing to return the industry to market balance and reduce the Federal budget.

An efficient transportation system must be maintained. Cargo preference performs a disservice to agriculture. Again, at no cost to the Government, a decision made to exempt agricultural products from this restrictive measure would add considerably to the competitiveness of U.S. food products to foreign markets.

On June 19, the Senate Commerce Committee voted by a narrow margin of 9 to 7 against S. 721, which had previously been approved by the Senate Agriculture Committee, 16–0.

The administration endorsed the legislative effort to overturn the court's adverse ruling. Maintenance of an efficient, economic rail system should be a top priority.

The proposed sale of Conrail system to the Norfolk Southern needs careful scrutiny. Generally, competition strengthens efficiency, but let us not destroy the rail system by encouraging overcompetition or by granting a monopoly to one system which the proposed sale could do.

The Farm credit system is in trouble. For example, the Spokane district needs help from sister banks. Total system is sound, but a way of interchanging resources would prevent the problem which the Spokane district faces.

Present loss sharing agreements are too inflexible to function properly. Revised agreements are needed. Also, there seems to be a lack of leadership.

The FCA lacks authority to overcome resistance of many boards of directors. We follow, with interest, the subcommittee's markup of the dairy portion of the 1985 farm bill as of June 26, 1985.

Dairy price indexing we find acceptable. The 3.5-cent deduction for research may be needed. But strong support is needed for sufficient promotion fund. I would question taking a sizable amount away from the present 15 cents for promotion.

We question the proposal in adjusting freight differential from a low of 0 cents to a maximum of $1.64. This is projected to cause an increase in production in the high rate area and could mean 2 billion pounds more milk. All of which could end up being purchased by the Government. Has this cost been included in the estimated cost of 40 cents per hundredweight? Would this be an additional 17 cents per hundredweight?

The proposal by Congressman Jeffords is innovative, to say the least. Accepting bids for a farmer to leave the dairy business, and the farm could not produce milk for 5 years. History has shown these programs leave much to be desired in the form of positive results.

A meat promotion program is needed. And, again, this would be an industry-financed program. Thank you, we appreciate the opportunity to share and if we work together solutions can be found.

[The prepared statement of Mr. Morse appears at the conclusion of the hearing.]

Mr. COELHO. Mr. Horton.

Mr. HORTON. No questions. Thank you gentlemen very much.

Mr. COELHO. Mr. Martin.

Mr. MARTIN. I have no questions either. I thank you gentlemen.

Mr. COEHLO. Mr. Eckert.

Mr. ECKERT. No questions Mr. Chairman.

Mr. COELHO. Mr. Boehlert.

Mr. **Boehlert**. No questions, just one quick observation. I know you are on a tight schedule. I know you have a hearing in Binghamton today. All three gentlemen have been very helpful to me specifically and in general to the New York delegation in communicating their views. I would encourage you all to keep up that free flow of communication.

Mr. **Coelho**. I also want to thank the panel. I appreciate it very much. I made some notes based on some of the things you recommended. We will follow through and you will be hearing from us. Thank you very much. The next panel will be Mr. Brown, Mr. Schwartley and Mr. Bush. Will you please come forward. We would like to hear from you.

STATEMENT OF CAL BROWN, PORK PRODUCER, SENECA COUNTY, NY

Mr. **Brown**. Mr. Chairman, members of the subcommittee, my name is Cal Brown. I am a pork producer in Seneca County, serving on the board of directors of the New York State Pork Producers Council and national director from New York State to the National Pork Producers Council.

It is an organization representing 110,000 pork producers in 38 States. I appreciate the opportunity to speak before you today.

The U.S. pork industry has been successful so far in its efforts involving subsidized Canadian hog imports, we are well aware that the battle has not yet been completely won.

The National Pork Producers Council has been working to increase the level of duties announced by the Commerce Department in their determination of the Canadian import subsidies.

The National Pork Producers Council looks forward to the final determination from the Commerce Department and the International Trade Commission which was made on June 10 by the Commerce Department and July 25 by the ITC.

We are confident that countervailing duties imposed as a result of this investigation will substantially reduce the injury which these unfairly subsidized Canadian imports have caused U.S. pork producers.

We lost almost $1 billion as a result of them last year. A record 213,490 Canadian hogs were sold in the United States to packers during March as Canadians pushed to beat the implementation of the April 3 preliminary countervailing duty.

For the first quarter of 1985, a record of 540,114 Canadian hogs were marketed in the United States. That is nearly double the amount for the same period in 1984 and more than Canada sold to the United States in all of 1983.

Fresh and chilled Canadian pork imports during March rose 70 percent over the 1984 levels. First quarter figures show 44 percent more fresh and chilled pork crossing the U.S. border in 1985 than in 1984.

The only product category showing a first quarter decrease is frozen pork, which is 3 percent short of 1 year ago.

Large amounts of Canadian hogs and pork entering the United States in March greatly impacted U.S. hog prices. Prices were $2.54

to $5.55 lower per hundredweight as a result of first quarter imports.

On given days in New York State this past winter we were unable to sell our hogs because of Canadian imports and also there are numerous packers in the State that are only buying Canadian hogs. There are other unnecessary barriers to free and equal pork trade between our two nations. Among them is the 30-day quarantine U.S. hogs must undergo at the border before they enter Canada. There is no similar artificial barrier to Canadian hogs entering the United States.

This quarantine effectively blocks any substantial number of U.S. hogs entering Canada. We understand the USDA officials made a proposal to Canada recently to lift this artificial barrier to free trade between our two nations.

U.S. Agriculture Secretary John Block, in his address at the National Pork Producers Council annual meeting in March in Indianapolis, indicated that he expected an answer to that proposal soon.

At this time, we have not heard anything further on the subject. We are gratified that this committee's interest will encourage you to do everything possible to eliminate this unjust and unnecessary trade barrier.

The NPPC is deeply concerned with what appears to be serious inequities between the United States and Canada involving the use of certain antibiotics and drugs used to treat food-producing animals.

Chloramphenicol is a prime example. Jerry Swartley, a pork producer and president of the Seneca County Farm Bureau, will address this subject. Thank you.

STATEMENT OF GERALD SWARTLEY, PORK PRODUCER, AUBURN, NY

Mr. SWARTLEY. Mr. Chairman and members of the subcommittee, approximately 1 year ago the Food and Drug Administration took extraordinary measures for keeping antibiotics known as chloramphenicol from being used in the animals raised for food production in the United States.

We know that this drug is still being used in Canada under a veterinarian's prescription and is administered to animals raised for food production.

The National Producers Council brought this to the attention of the USDA approximately 1 year ago. They have repeatedly pointed out the possibility of these drug residues in the imported pork and hogs from Canada.

Unfortunately, the USDA has not seen fit to take any action in this regard except to discuss it with the Canadian officials.

We have received several assurances during the past months that Canadian officials were going to take some action in regard to eliminating the use of this drug.

As far as we are aware of, nothing has been forthcoming. We believe that this represents an inequitable enforcement of regulations covering imported animal-based products as compared with domestic animal-based products. Because of the failure of the Federal agency, the Governors of three major hog States took action on their own. The flurry of activities last month went like this. On Friday, May 10, the Governor of South Dakota announced that, effective immediately a ban had been imposed on all hog, cattle, and sheep from Canada because they were given chloramphenicol.

Governor Bill Janklow ordered State troopers to use roadblocks and monitor the Swift plants and Duran and the John Corral & Co. plant at Sioux Falls, to assure that these hog packers lived up to their agreement to discontinue receiving Canadian hogs.

On the following Monday, May 13, the Canadian Health Ministry informed USDA that it was proposing to ban the use of chloramphenicol.

The proposal dated May 7 includes a 60-day comment period, when the final ruling will be issued. On Tuesday, May 14, the Governor of Iowa, Ted Branstad, announced emergency rules were to be placed in effect in a matter of days restricting the importation of food animals that had been exposed to chloramphenicol.

Bill Regan, president of the Iowa Pork Producers Association says he feels strongly that the production practices which are used in other countries but banned in the United States should not be sanctioned in this country.

Iowa Secretary of Agriculture Robert Lausberg plans to issue rules requiring hogs imported into Iowa for feeding, slaughter, or fresh meat to be certified free of chloramphenicol.

Hopefully, this strong stand by the States will push USDA to finally act on meat imports from countries where chloramphenicol is used.

Later in the day of Tuesday, May 14, the Governor of Nebraska issued an executive order, effectively immediately, banning the Canadian Food Pollution Act. The issue of chloramphenicol is, apparently, a valid one.

The drug has been banned in the United States because of human health problems. In a letter to veterinarians, Dr. Les Crawford, Director, Center for Veterinary Medicine of the FDA, explains that the threat of chloramphenicol is twofold.

First, it can be a threat to the producer or veterinarian who merely handles the drug and, second, the risk of exposure to even small doses of the drug.

I therefore recommend that this subcommittee pursue this subject and formulate actions to rectify this and other similar inequities in our agriculture policy.

Only then can we have fair and equitable world trade. I would just like to make a few comments.

Mr. COELHO. Very briefly. You have reached your limit.

Mr. SWARTLEY. This is not dissimilar to the situation in the dairy industry of the casein. Casein, in many of the countries, is imported from standard production stuff which is very much out of line with the standards of production of our country, so I realize that dairy is the major issue but still this has some connection to that.

Mr. COELHO. If I may say, Mr. Swartley, to both you and Mr. Brown, before we hear from Mr. Bush. Our subcommittee has been very actively involved in this issue. As you know and we were very actively involved in pursuing this matter with the Commerce Department. We had some hearings and we have written letters and we have been very agressive in trying to get the Commerce Department and Agriculture to understand the problems that exist here.

We have made some progress and we are working very closely with your national organization to see if we can turn it around. I have committed to your national board and your national officers and we will stay agressively involved and we intend to. We are also happy that we are working with you folks in regards to the pork promotion program, as well as hopefully, encouraging the Department of Agriculture to buy pork for the school lunch and the armed services programs and so on.

We are aggressively paying attention to the problems of the pork producers as well as the problems of the dairy producers. We appreciate very much your appearing here today.

STATEMENT OF PAUL E. BUSH, PRESIDENT, TEAMSTERS LOCAL 506, AUBURN, NY

Mr. Bush. Mr. Chairman and members of the House Subcommittee on Livestock, Dairy, and Poultry, I am Paul Bush, president of Teamsters local 506. I would like to welcome the subcommittee to our city and thank you for taking the time in coming to Auburn to hear directly our concerns about proposed legislation and the effect on each of us.

Mr. Chairman, I would like to take the opportunity to express the appreciation and the thanks of the members of Teamsters local 506 to Congressman Frank Horton for his help in arranging this visit by your subcommittee to our community.

His leadership in this matter and others of interest to this community have been a great help to working Americans everywhere.

Mr. Chairman, my message will be brief and to the point. As an elected official of the labor union, my first responsibility is to insure the protection of the jobs of those working men and women.

I am here today on behalf of Teamsters local 506 and for the more than 4,000 teamster members and for our other sister locals involved in the production, processing, and delivery of dairy products in upstate New York.

Our teamster members are employed by dairy companies throughout upstate New York. Also, Mr. Chairman, additional tens of thousands of teamsters are employed in the dairy and farm industry throughout this country.

These working Americans produce and process fresh and wholesome farm and dairy products for American consumers throughout this Nation and for export for the world market.

Our upstate teamsters have produced, processed, and delivered milk, cheese, yogurt, butter, and other dairy products for decades.

Teamsters in New York and in the country represent a vital link in the dairy chain, that is, production and delivery to market.

These teamsters, like all Americans, are concerned about the general welfare of the American economy, but in particular, they are vitally concerned with any legislation which may radically alter the dairy industry.

Shortly, Mr. Chairman, this committee and your Senate counterparts will begin consideration of various bills concerning overall agricultural policy and the relationship of the dairy industry to that policy.

Your decisions will affect the dairy industry in this State and the Nation. Our message, Mr. Chairman, and members of this subcommittee, is when you outline the future of American agricultural policy, do not forget the working teamster who processes cheese in Skaneateles Falls, or the teamster milkman who delivers milk in Manhattan or the teamster cannery worker in California.

Sudden or abrupt changes in established Federal programs or policies will not only affect the long-range plans of farmers, but also the plans and profits of companies that invest millions of dollars in plant and machinery to process and distribute the dairy and farm products and the communities in which they are located.

I am sure the committee is well aware that unlike standard manufacturing plants, milk processing plants in upstate New York are usually located in small rural communities such as Skaneateles Falls, Homer, Campbell, Friendship, Pierrepont Manor and plant cutbacks or closings have serious results on these communities and their tax base.

Your actions will definitely have an effect on these men and women and their families and their interests must be given equal weight as well as the consumer and the farmer.

One other area of concern to New York teamsters and to all teamsters is that of imports. We understand the need for fair trade with our trading partners, but we cannot help to want for a trade policy and an agricultural policy which promotes the production, delivery, and sale of American farm and dairy products in this country and abroad.

Any further information the committee or staff may require will be made available and our legislative department will be addressing specific legislation at future hearings.

Our object today is to heighten the committee's awareness that your decisions impact not only on the consumer and the farmer but on our 4,000 members in upstate New York directly involved in the processing and distribution of dairy and farm products.

Again, thank you Mr. Chairman and members of the committee for your time and for listening to the concerns of our members.

[The prepared statement of Mr. Bush appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much Mr. Bush.

Mr. Horton.

Mr. HORTON. No questions but I want to thank Mr. Brown and Mr. Swartley, they are both friends of mine in the hog production business. Mr. Swartley is the chairman of the Seneca Farm Bureau and doing an excellent job in that.

I also want to thank Mr. Bush who is head of the local teamsters in this area and we work very closely with him. I think his testimony is very important for us to remember that there are many who depend on this industry and it is important for us to bear that in mind as we act, legislatively, to solve these problems. Thank you very much Paul.

Mr. COELHO. Mr. Martin.

Mr. MARTIN. A few brief comments. Having a district that is bigger than nine different States, I live in an automobile, virtually, and I want to support you and the association, and what you are doing, promoting pork. If those ads and that promotion campaign does not do it, I do not know what could. It seems that you have invested your money well.

Second, 4 weeks ago today, I was in a meeting with Canada/U.S. Interparliamentary Group. We do not have the authority to make concrete decisions.

I do want to tell you this. Concerning that hog producing problem, we are asking all along the border, and they are getting very sensitive because they understand that we are sensitive. I think you are not only going to have some action by our Government, but I think you are also going to have some restraints on their part, not only with the hogs but with the paper because they understand we are getting awful crankly on those two subjects.

Mr. Brown. I thank you for your comments. I do have the privilege of serving on the consumer products marketing and also development group on the national level which, again, I appreciate your comments in terms of promotion of our product because we do spend a large share of the national budget. Thank you.

Mr. Coelho. Mr. Eckert.

Mr. Eckert. No questions, Mr. Chairman. I would ask for a copy of their testimony.

Mr. Brown. Yes, I will see that you get one.

Mr. Coelho. Mr. Boehlert.

Mr. Boehlert. No questions Mr. Chairman.

Mr. Coelho. Thank you very much. I appreciate the panel testifying. As I said to the group at breakfast, I am Portugese and our favorite food is pork sausage so you have a special place in my heart.

Dr. Stammer and Mr. Mathis please come forward.

STATEMENT OF RICHARD W. STAMMER, MANAGER OF ECONOMICS AND COMMUNICATIONS, AGRI-MARK, INC.

Mr. Stammer. Thank you Mr. Chairman, you do have a copy of my statement?

Mr. Coelho. Yes; it will be made a part of the official record.

Mr. Stammer. My name is Richard Stammer and I am representing Agri-Mark, Inc. It is a 3,000 member dairy cooperative with members in New England and New York State.

I really would like to commend the subcommittee for the efforts and the bill which has come out. I think they have done a very commendable job. It is commendable in two aspects. One, it recognizes that the dairy problem did not occur overnight and it is not going to be solved overnight.

It moves us to solving the problem over a 4- or 5-year period. Second, I do think you came up with the best alternative, given the budget constraints. Without lowering prices to a devastating level and driving a lot of efficient and leveraged farmers out of business.

Mr. Coelho. I have just changed my mind. Do you want 15 minutes?

Mr. Stammer. I know they have had a very tough job with a lot of different opinions, but I think the bill they came up with is a very good compromise bill. I believe that the bill will—with maintenance of price supports, the implementation of the dairy specific parity with productivity adjusters and the supply and demand adjusters, I think those three things together will move us to a market oriented dairy industry over a period of 2 to 3 years.

While many people here are opposed to the paid diversion program, and while Agri-Mark—that is probably not our favorite program, we do support that program because we believe, given the budget constraints, that is about the only alternative that we can do at this time to bridge this gap between our overproductive capacity and moving to market orientation without devastating the dairy industry.

We also believe that given the alternatives faced by the committee that really this is the best program for New York State producers.

I think the committee made a couple of very good changes and very significant changes in that paid diversion program which should help to solve the long-range problem.

One was to give it a 2-year program upfront. That is very important. I think even more significant is the total buy-out provision. I think that given the lower support prices which will come out of the program, I think the 2-year buy-out provision will have a significant impact on lowering our total dairy supply.

I think the bill, given the whole political climate and the budget constraints, that it is a good bill that is coming out of there.

We have heard a lot of numbers today about what the paid diversion program costs. I have done some numbers on that and looked at that analysis. By my estimates when you take into account price we got during the paid diversion period, actually it was a net increase of about $26 million coming into the Northeast during the period of the paid diversion program.

So, I do not believe this program hurt the Northeast as much as a lot of people feel it did. That is my 10 minute statement down to 3 minutes.

[The prepared statement of Mr. Stammer appears at the conclusion of the hearing.]

Mr. COELHO. You can expand it more though. Thank you very very much. I appreciate it. Mr. Mattei.

STATEMENT OF JOSEPH C. MATTEI, MANAGER, ECONOMICS AND GOVERNMENT RELATIONS, EASTERN MILK PRODUCERS COOPERATIVE ASSOCIATION, INC.

Mr. MATTEI. Thank you Mr. Chairman. I, too, will limit my comments and paraphrase my statement. I believe you have a copy.

Mr. COELHO. We will make it a part of the official record.

Mr. MATTEI. Fine. I know you realize, but just so those in the audience do, I am the manager of economics and government relations for Eastern Milk Producers Cooperative.

Eastern is a regional dairy farmer cooperative with about 5,000 members in this area covering five Federal order markets in about 12 States in those parts of this distribution system.

The association is an active organization in this area and we are active in the national federation. It is their bill that we basically are supporting and I am zipping through some of this pretty quick.

ly. I hope that you will take the time to read all of this good stuff when get on the airplane on your way back.

I think probably what you are going to hear is going to sound a little bit like an echo because what Rick Thompson [illegible] with you and what our position is is very similar. If not identical. And I think our feelings as a professional association would parallel his very closely as to what you have done in the committee.

We concur fully with what his position is that your subcommittee has been taking. We have learned from the proposals that the [illegible], that there has to be a continuation of a support program and a [illegible] program in the [illegible] and more efficient, more orderly way of [illegible] or achieving your objective. Thus, we are in support of the [illegible] of some kind to assist the [illegible]. We think that [illegible] a Federal [illegible] program [illegible] think it is more responsive to the needs of the industry, and I think that the Federal [illegible] approach is [illegible] for meeting your own [illegible]. I think it is intended to. Thirdly, we are also strongly supportive of the supply and demand adjustment which has already become [illegible]. We recognize it as a reality and it must be addressed. And, thirdly, we do support the [illegible] in the Administration's bill and that is to do something about the [illegible] of the Federal [illegible].

This reason we support it is not because we believe that this is the way to do it because we do not. We think there are real dangers in [illegible] of changes to our Federal [illegible] already because we do have a very effective Federal [illegible] process through which such changes can and have taken place. We agree with you, we are frustrated that [illegible] to changing that price [illegible] since the late 1960's and it is [illegible] out of date.

It was not until your subcommittee, you specifically Mr. Coelho, started pushing it that the Secretary got off dead center and thought he would get you off dead center by then setting a hearing in the Southeast.

I am not sure that our friends in the Southeast are convinced yet that that is going to result in the changes they want.

Mr. Coelho. If I can just interrupt you for a minute. It was not that they were trying to get me off of dead center. What they were trying to do was to see if they get the Southeast off the [illegible]. The Southeast decided to stick with me instead of going with the Secretary as we will see what happens.

Mr. [illegible]. OK. There are many other changes I think that you are aware of in the Federal order program that need to be addressed that there that have been brought to your attention by the Federation. One is to provide some authority to [illegible] handlers who are providing [illegible] service [illegible] out of the pool in those Federal order programs. We hope that you will give some favorable consideration to that. Second. As you know that there is a [illegible] problem for the [illegible] in our orders. We are very much in need of [illegible].

We have a very serious seasonal pricing problem that Richard and I think are working to try to correct back in the Northeast. It is true elsewhere too, but most definitely here in the Northeast and particularly in the New York and New Jersey marketing area.

Richard has a problem in New England, ours is a little bit more severe than his and if we are denied those authorities to keep effective seasonal provisions in our orders we could impair our ability to get farmers to produce more for the market needs more seasonably.

Mr. **Coelho**. Excuse me. Could you explain to me a little bit more. What is happening? The USDA is not wanting you to do that?

Mr. **Mathis**. No, the authority in the Agricultural Agreement Act of 1937 was temporary to provide for Louisville type takeout payback plans and seasonal based excess plans. What we are asking you to do is make those permanent parts of the law.

Mr. **Coelho**. OK, but that is not in the markup right now?

Mr. **Mathis**. I am not sure whether that is in the markup or not. It was part of the National Milk Producers' Federation proposal.

Mr. **Coelho**. I have been corrected by my staff. It is in there.

Mr. **Mathis**. Fine. Thank you. OK, of course, there is another element in there about the ability of calling a hearing or mandating a hearing if one-third or more of the farmers ask for it. I think you are doing something about that. Basically that is our position. We really do appreciate you coming up here to New York. I wish we could have given you more California-like weather but you know the Lord is in charge of that.

[The prepared statement of Mr. Mathis appears at the conclusion of the hearing.]

Mr. **Coelho**. We appreciate California-like weather as a result of that. Mr. Horton.

Mr. **Horton**. I have no questions. I wish we had more time. I think questioning would be very helpful to bring out additional points which I am sure you could make, but because of the constraints of time and for the benefit for all of those here, Mr. Coelho has made a commitment to be in Binghamton at 2 p.m. He is going to have to get out of here very quickly, so we are appreciative of the witnesses condensing their statements as much as they possibly can. Thank you very much for your testimony.

Mr. **Martin**. I have no questions but just want to add to what Frank said; I do not want the chairman setting a land speed record from here to Binghamton and I know there are two other panels. Thank you very much for your testimony.

Mr. **Coelho**. Mr. Boehlert.

Mr. **Boehlert**. No questions.

Mr. **Coelho**. Mr. Eckert.

Mr. **Eckert**. No questions.

Mr. **Coelho**. I would like to say that I appreciate your comments but there is one question I would like to ask. Could you tell me the number of dairy farmers who belong to your groups, just rough numbers?

Mr. **Mathis**. Ours is a little over 4,000. I think 4,130 was the last number I saw.

Mr. **Coelho**. And your area of jurisdiction is where?

Mr. **Mathis**. Our membership is predominantly in New York and Pennsylvania. We cover, however, pretty much the whole New

England area, Delaware, a few producers in West Virginia and Virginia. That is basically our territory.

Mr. **Coelho**. Dr. Stammer.

Mr. **Stammer**. We have about 3,000 producers that cover the New England States and eastern New York State.

Mr. **Coelho**. So you are saying that the two of you both endorse the premise of where we are heading and your producers generally support that, is that what you are saying?

Mr. **Stammer**. Yes, we have discussed proposals at our regional meetings of producers all throughout our area and generally they support it.

Mr. **Coelho**. So what I have been hearing here today is that what we have is a split in the Northeast. Some of these folks are saying that they are opposed to what we are doing and you, basically, are saying that you are in support of what we are doing so there is somewhat of a split, is that correct?

Mr. **Stammer**. Yes, I think there is a split. The split basically comes from the diversion program and our producers would say that if we had unlimited money to spend, we would not like the diversion———

Mr. **Coelho**. So would I. I appreciate very much your———

Mr. **Martin**. May I ask a question?

Mr. **Coelho**. Yes, very briefly.

Mr. **Martin**. Of the 4,150 members that you have, how many of those are in the diversion program? Do you know?

Mr. **Mathis**. I really do not.

Mr. **Martin**. Could you provide that for us?

Mr. **Mathis**. I am not sure we have that information at our disposal.

Mr. **Coelho**. We have been trying to get that from the Department of Agriculture and we have not been able to.

Mr. **Mathis**. I have been too and our computer program was not set up to isolate those, but I would like to make a comment briefly about what you asked Mr. Chairman. We have had three delegate meetings. In all three of them—the last one being on Tuesday of this week—well, I should say the first two, there was direct support for the diversion program among those 200 delegates that represent our organization.

The one this last week, I recited for them the position that we were taking here and the position we have—our board has taken and there was no opposition to that. Again, like Richard, I feel that given the option, our farmers would rather not have one but recognizing what the other option is they will say, "OK, we will go along with it———

Mr. **Coelho**. On a temporary basis. I would just like to say that I really appreciate your testimony. I will walk away from here with a different attitude about where the people up here are. I would like to also say, and I will say it to everybody here at this point, is that we will be marking up a week from Tuesday in the full committee. The chairman has asked me to be the lead-off mark so the dairy provision will start the markup for the full committee. We do not anticipate much problem in the full committee but after that I would like to—before we go to the House floor—I would like to come back up here and meet with some of the dairymen of this area to get some further information as to some of the specific problems that you are having. If I could do it before Tuesday I would but I cannot. But I will do it after that point.

I would like to get some more information. I think that what we are having is some lack of information as to what we are trying to do and what our constraints are not.

I would like to meet with some of the dairymen up here to be able to explain it so what this has done for me today, so far, is stimulate me to come back as opposed to walk away.

Mr. **Stammer.** In answer to Mr. Martin's question, we had about 500 on paid diversion and we could provide you with a list. That is the number, 500 out of our membership.

Mr. **Coelho.** OK, thank you. The next panel will be made up of Mr. Zuber and Mrs. Maxwell.

STATEMENT OF WILLIAM G. ZUBER, DAIRY FARMER, CHURCHVILLE, NY

Mr. **Zuber.** Thank you Mr. Chairman and Congressmen. My name is William G. Zuber, a dairy farmer from Churchville, NY.

I farm about 1,500 acres with a 500-cow herd in conjunction with two sons who are in partnership with me. I am also president of Upstate Milk Cooperatives. First, I would like to thank the committee and Congressman Horton for inviting me here today to address the very important issues of the dairy industry.

Upstate Milk Cooperatives has over 900 members who market over 1 billion pounds of milk annually. Upstate is a member of National Milk Producers Federation and the Northeast Farm Bill Committee, which you have heard others talk about today.

Our board of directors is made up of dairy farmers who have carefully considered the many different proposals for dairy policies to be included in the 1985 farm bill.

We have participated in many forums dealing with this issue. Upstate Milk Cooperatives support the concepts developed by the Northeast Farm Bill Committee, which are also supported by many other organizations of dairy farmers nationwide. The concepts are one, continuation of the Commodity Credit Corporation purchase program; two, use of dairy pricing index to establish support prices based on milk production costs adjusted for productivity increases; three, use of a supply and demand adjuster to further adjust the support price up and down based on the anticipated level of CCC purchases; and five, we support Congressman Rose's bill on casein imports.

This program is a market-oriented approach that will still have a stabilizing effect on dairy product prices for both consumers and producers alike.

The program will also reduce future Government expenditures but it will have to have time to work. We are opposed to the continued use of the diversion or supply management programs.

Current projections show that a continuation of the diversion programs will not result in a long-term solution to excess supplies.

Further, with technology that has also been developed, it is doubtful that it will be possible in a couple of years to remove the diversion program.

Producers who participate in a diversion program are more likely to improve their financial condition and capability of staying in business rather than removing the resources from production. Price signals are not likely to be strong enough at the end of the program to encourage diversion participants to get out of dairy farming.

Furthermore, supply management results in higher prices to consumer and more commercial sales. Finally, let me emphasize that this program that we support, like anything, must have time to work.

Dairy farmers, on July 1 will face their first real reduction in price supports in a year and a half. We did not achieve these milk surpluses overnight. One of the causes was unclear pricing signals over the past few years as a result of previous dairy policy.

The farm program we support is designed to be realistic and will not encourage excess national production in the future.

The industry needs time to adjust in order to reduce unnecessary financial failures of farmers, bankers, suppliers and processors of dairy products. Again, thank you very much for your time and efforts in coming here today.

[The prepared statement of Mr. Zuber appears at the conclusion of the hearing.]

Mr. COELHO. Mrs. Maxwell we would like to hear from you. I might add before you start that I am a strong advocate of WIFE. You and your organization have done a tremendous amount to help agriculture. I appreciate the participation that your organization had in the hearings that we had in Washington.

STATEMENT OF ANITA MAXWELL, NATIONAL DAIRY CHAIRWOMAN, WOMEN INVOLVED IN FARM ECONOMICS

Mrs. MAXWELL. Thank you. In fact we had a breakfast for the House and Senate Committees. We missed you but we did see Kim Schnor from your office and we met with a few of the others.

I am Anita Maxwell, a dairy farmer from Newport, NY, in Herkimer County. My husband and I have 11 children who, some of them, help around the farm and some of them are off on their own.

I started the first WIFE unit in New York 2 years ago and became their national chairperson right away. I was also the first woman in the United States who was ever elected a national director of a farm organization.

I served four terms with the NFO. I was with the Secretary Banks groups, the first women's group that went to Europe last fall. I was their dairy expert. I appreciate the fact that this distinguished panel is holding hearings in New York State but I hope our advice does not fall on deaf ears and is heeded.

I have a feeling the destiny of our dairy farms is already plotted and the input from these hearings will be disregarded.

I note in the papers they say they have already passed the diversion program through one of the committees. Last year the Dairy Diversion Program had only a band-aid effect on the CCC purchases as most farmers maintained relatively the same number of cows, but cut back on the grain ration to reduce milk production.

At the end of the 15-month period, most farmers increased their grain and thus their milk production, and many have raised extra replacements during that period of time to feed their surplus milk to.

The 50-cent-per-hundredweight tax cost our farm almost $10,000 for 1 year or a total of $13,000 for the 15-month period.

For some farmers, the diversion program gave them some extra cash without the bother of producing all that milk or milking extra cows, but for the most part, it was a disaster program, not a diversion program.

Here in the Northeast, we barely produce enough milk to supply our markets, while the glut of the CCC sales came from Minnesota, Wisconsin, and California.

For most Southern States and the Northeast where milk was either in a deficit supply or barely enough, it caused havoc in our orderly milk marketing system and at times our own market administrator had to put into effect a call order to have manufacturing plants reduce their usage of milk in order to have more fluid milk for our consumers' needs.

In many Southern States, the diversion program caused such a shortage of milk, that it had to be transported from Wisconsin, causing a severe rise in consumers' prices at the store.

To make matters worse, the cost of this program was felt most severely by our local cooperatives. They had contracts for fluid milk to fulfill and when the milk supply was decreased in States such as New York, the co-ops had to buy milk from neighboring States or other companies at exhorbitant prices.

When the co-ops lose money, their members pay for the loss out of their milk checks. Our NEDCO co-op is almost extinct now because of losses—not all due to this diversion program—but most assuredly some of the losses can be credited to this program.

This loss alone cost my husband and I about $14,000 this spring. I just do not know how much more the Government feels we should lose to compensate for what they feel is a surplus.

The only reason I am dwelling on this, is many Congressmen feel the diversion program is a panacea and I realize that the Secretary does not approve of that.

The most constructive thing this administration can do to help the dairy situation is to restrict our imports at least to the amount of our quota, and to label casein a dairy product, rather than a chemical, and have it counted as a dairy import.

If casein enters the United States as a dairy product, the prospect of making it from U.S. milk would become much more attractive.

This administration for 3 years in a row, has allowed excessive amounts of dairy products to be imported into the United States over and above our normal quota. I believe it was 23 percent each year over the quota.

According to tables from USDA, the United States imported over quota, 345 percent more evaporated milk, 150 percent more butter, 36 percent more American cheese, 19 percent more nonfat dry milk, and 13 percent more cheddar cheese.

The only answer we get from USDA is there could be a probable error in reported data. These excesses alone in 1 year amount to 507.2 million pounds of milk equivalent allowed in over our quota.

This at a time when U.S. dairy farmers have been paying other U.S. farmers not to produce milk. This imported milk did not help finance the promotion program, did not fund the diversion program, but cost the U.S. Treasury and American taxpayers more than $86 million in additional product purchases, amounting to 23 percent over our quota.

Our national WIFE organization is against the dairy diversion program or anything that would tax farmers. We recommend the reduction of imports; raising the solids requirements for whole milk, which would give consumers a more nutritious, tastier product; restoring or keeping programs that use dairy products such as WIC, school lunch and milk programs; having our land-grant colleges spend more time, money, and effort on marketing what we produce, rather than teaching us to get 30 percent more milk from our cows with a hormone which will end up getting taxed for doing so.

Finally, if after doing the above suggestions, we still have a surplus, we farmers would rather have a farmer-controlled supply-management program, such as a base-excess plan, and I do not mean a quota one like Canada, where you buy it, but base-excess like New Jersey uses which is very palatable.

There is no price on your base. It is what you establish, and control the supply of milk ourselves. We also need a revamping of our Federal milk marketing orders to make them more fair to each segment of our country.

Farmers should be paid a price based on cost of production for the product needed and we will handle the surplus ourselves.

[The prepared statement of Mrs. Maxwell appears at the conclusion of the hearing.]

Mr. **Coelho**. Thank you. Mr. Horton.

Mr. **Horton**. I have no questions. I think that is a very excellent statement. I think you made some excellent points, especially with regard to the matter of restricting imports and labeling casein a dairy product.

That is not the whole answer but I think it would go a long way toward answering the problem. Thank you too, Mr. Zubert.

Mr. **Coelho**. Plus it would be fair. Mr. Martin.

Mr. **Martin**. Thank you very much. That was an excellent statement, particularly concerning the frustrations of not having a course of action. Thank you.

Mr. **Coelho**. Mr. Boehlert.

Mr. **Boehlert**. I would like to echo your statements Mr. Chairman on the WIFE organization. It has been very helpful and Mrs. Maxwell is a good friend——

Mrs. **Maxwell**. Former opponent?

Mr. **Boehlert**. Former opponent but always a good friend. Thank you very much.

Mr. **Coelho**. Mr. Eckert.

Mr. **Eckert**. I would just like to make a couple of comments before you leave. In your statement you said that it would be impossible to remove the diversion program once it is implemented. It would be against the law not to remove it because in our program we make it mandatory that it has to stop. It is a temporary program. It is a transition program so under the program that we have now it would be removed so that would not be there so I just wanted to clarify that for you.

Mr. COELHO. On the comments you made Mrs. Maxwell about raising solids, not fats, that is something we are trying to push.

We cannot put it through the Agriculture Committee because it is not under our jurisdiction. But it is something, of course, we do in California. It makes a lot of sense and we are trying to see if we can get it done through the Energy and Commerce Committee, which is where things go, so we will be pursuing that.

On the revision of marketing order program, I just want to tell you that as soon as we get through with this farm bill, we will be holding some hearings on Marketing Order Program. It has not been looked at in many, many, many years and it needs to be looked at. We will be doing that but we cannot do everything in the few weeks that we have but again, thank you very, very much. I appreciate your testimony. The last panel will be made up of Mr. Jerrett, Mr. Morey, and Dr. Mix.

STATEMENT OF LEWELLYN S. MIX, DIRECTOR, FARM MANAGEMENT R&D, AGWAY INC.

Mr. MIX. Chairman Coelho and members of the New York State Delegation. Ladies and gentlemen my name is Dr. Lew Mix and I am director of farm management for Agway Inc., for New York.

Agway Inc., is a farm supply and food marketing cooperative owned by 104,000 member-stockholders, serving agriculture in 12 Northeastern States.

I am going to telescope my remarks here in the interest of time. Looking to the future, dairymen in the region generally recognize that national milk production of 137.4 billion pounds during the 1983-84 marketing year exceeded demand by 7.6 percent.

CCC purchases of 10.4 billion pounds of milk equivalent is excessive and must be reduced to 5 billion pounds or less.

With the announced support price of $11.60 for July 1, 1985, it is felt that this price with the supply and demand adjuster and productivity adjuster will move us toward the goal of a CCC purchase level of 5 billion pounds by the end of fiscal year 1986.

Several factors must be taken into account in developing a sound dairy policy; first, steadily improving genetic capability, coupled with ongoing advances in feeding and management, are raising production per cow by about 250 pounds per cow or more per year.

With the present national herd of almost 11 million cows, this means a potential increase of around 2.75 billion pounds of milk per year or about 11 billion pounds over the next 4 years.

One million fewer cows than we have today will be required over the next 4 years. Milk is a highly perishable, seasonally produced, mobile food, making it subject to wide price fluctuations.

The cost of producing milk within any State varies by about $4 a hundredweight depending on herd size, pounds sold per cow per year, pounds sold per farm worker per year, and capital investment per cow and cost control.

The consumption of milk and dairy products is relatively inelastic to price change, but does respond moderately to advertising and promotion.

The steady increase in imitation products made from imported casein has displaced the need for over 55 billion pounds of domestic milk equivalent per year.

What are our recommendations? Given the above factors, the 1985 farm bill should contain the following basic dairy policies.

One, continue the present support programs but abandon the present parity formula in favor of the new dairy specific formula.

Two establish a supply and demand support price adjuster and authorize the Secretary to adjust support prices for annual CCC purchases above or below the 5 billion pounds.

I personally believe that price can control surplus production.

Three, set a reasonable import quota on casein at about 75 million pounds per year. This is long overdue. I believe that we should continue the WIC and school milk programs for needy people and for children.

We strongly support extension of the 15 cent mandated checkoff in the upcoming referendum.

Four, increase the export of dairy products for stronger sales and barter programs. The dairy industry overexpanded production between 1979 and 1983 in terms of current demand because of rapid advances in production technology, artifically high support prices, and overexpansion of credit to marginal producers.

Reducing the incentive to expand through a flexible support price program administered by the Secretary with increased advertising and promotion and with a casein quota is the most equitable and practicable approach to bringing supply in line with demand. This approach should reduce CCC outlays for dairy product purchases to around $1 billion by the end of 1985-86 marketing year and will provide a clear signal for planning purposes to all producers. Mr. Chairman we appreciate the opportunity to present these comments before your subcommittee and we are very pleased that you agreed to come to central New York. Thank you.

[The prepared statement of Mr. Mix appears at the conclusion of the hearing.]

Mr. Coelho. Thank you Dr. Mix. Mr. Morey.

STATEMENT OF DONALD F. MOREY, DAIRY FARMER, WEST MONROE, NY

Mr. Morey. Just a couple of quick comments. I appreciate all of you gentlemen being here. I know, personally, a couple of you quite well; Mr. Martin and Mr. Horton.

Myself and my family run a 130-herd dairy farm just north of Syracuse, about 20 miles. Mr. Martin was our Congressman for a year or two before he decided to head for greener pastures but now Mr. Horton has that area.

I know the problems of the dairy farmers and also legislators, in some small means, being a local legislator from Oswego. I had some things I wanted to say but I think it has been pretty well covered by about everybody else here, about the diversion program, casein, support prices and what Dr. Mix just added.

A few other things mentioned on super cows. That will only add to the problem, I think, in years to come. Another problem, I think, FmHA and the home banks are all having problems and farmers are going under.

The Federal Government, as far as I can see, is saying. "Now, look, we do not want you to go under. We are going to send some specialists out to help you," and at the same time, at the other end they are saying, "Look, we do not need your milk." I think there is a contradiction there, with the left hand not knowing what the right hand is doing. I wish it would be settled in some way.

What I did do while I was sitting in the audience, I just made up a short verse on something that has not been talked about today. I want to bring this in a hurry and then we can go to Mr. Jerrett who probably has more things to say that make more sense.

You have heard a lot of testimony from farmers of all kinds and hopefully now you understand that all farmers are in a bind.

I feel we have a special situation here in the Northeast, we have a lot of problems, surplus is probably the least.

With major metropolitan areas right in our back yard and with people running out of dairy products in New York City, this is a problem we must look at hard.

It is true we live in the united country, but different regions had different needs.

From financing to promotion, to the different animals that we feed.

There is no easy answer and some of us will get hurt, but I feel that we should regionalize the programs for all the farmers that turn the dirt.

Taxes are set differently and feed prices vary from place to place. I feel region prices should reflect this if all farmers are to keep pace.

This is a great land of ours that our flag covers when it is unfurled. If any group needs to succeed, it should be this group that can feed the world.

Mr. Coelho. If you do not make it in dairying you might try this. OK, our last witness. Mr. Jerrett please.

STATEMENT OF THEODORE I. JERRETT, CHAIRMAN, AGRICULTURE AND ENVIRONMENT COMMITTEE, OSWEGO COUNTY LEGISLATURE

Mr. Jerrett. That is an awful hard act to follow. He does that to me in the legislature in Oswego County all the time. My name is Ted Jerrett, I am a dairy farmer up in Oswego County and also I am the chairman of the Agriculture and Environment Committee for the Oswego County legislature and I really appreciate the opportunity to come before you today.

I am also frustrated to a degree, yet glad to see so many topics covered that I intended to cover. I will keep this as short as I can.

The diversion program has been proposed—I understand the pressure you are under. I have a great deal of respect for your positions, but I have to reiterate that is hardly palatable to many people in Oswego County. In one instance we had this gentleman from Nestle, which is in our backyard, and according to statistics they use just a little bit more milk each day than all of Oswego County can produce.

Yet, our farmers were slapped with the cost of this diversion program. It is very tough to justify. You cannot get enough milk, yet we have to pay to get rid of a surplus somewhere. It is very difficult.

Another thing, I think, that has not been brought up, at least directly, is the image that this presents—paying not to produce—the image is bad to consumers who are also voters, which makes it very difficult to pass legislation. Sometimes it would be very beneficial. We all know, at least those of who have had some experience in the political arena, many very very good ideas are either stymied or go down the tubes—not on the basis of lack of merit, but lack of image. We have to maintain a good image.

If nothing else I would like to have you—if we have to go with a diversion, please keep the image down to a minimum because it is not going to help us in that light.

Mr. COELHO. One of the things that helps taxpayers are the self-help programs.

Mr. JERRETT. Yes, that point does not come through strong enough, though. If that is the type of point that I would like to see brought. Even the Governor himself was in error on a radio program, which is very embarrassing, claiming at the time to be very knowledgeable about the program and he slipped up.

Mr. COELHO. Let us hear your ideas. Let us not criticize anybody else. Go ahead.

Mr. JERRETT. Yes, but that is the type of thing we have to be very careful about because that is all part of the salesmanship and that is all part of the marketing. I guess that is about all that I can say at this point.

[The prepared statement of Mr. Jerrett appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much Mr. Jerrett. Mr. Horton.

Mr. HORTON. Mr. Chairman I just want to thank Dr. Mix, Don Morey, and Ted Jerrett for their testimony and coming here. I have worked very closely with them and I am going to continue to work with them. They have been very helpful to me and I am very proud to represent Oswego.

They do have a number of dairy people in that area. Thank you very much.

Mr. COELHO. Mr. Martin.

Mr. MARTIN. I just want to thank the panels and, in particular, my former constituents. My loss was Frank's gain.

Mr. COELHO. Mr. Boehlert.

Mr. BOEHLERT. I just want to thank the panel and also you, Mr. Chairman. I know you are going on to your next hearing and as one of the witnesses pointed out, all of our decisions, if they were made in isolation on this subject, we would act differently. But they have an impact and are budget driven so we have our share of the responsibility ahead of us. I thank you for helping us.

Mr. COELHO. Mr. Eckert.

Mr. ECKERT. No questions, Mr. Chairman, thank you for coming to New York today and thank everyone else for coming.

Mr. HORTON. Mr. Chairman, I think we have finished with the panel and we do appreciate your testimony. Mr. Chairman there were a number of people who wanted to testify as you can see and we have moved very quickly through this agenda, but there were a number of people who wanted to testify that could not. I would ask that the record be held open for a period of time so that those people who would like to submit written testimony for the record to do so.

I would also like to ask that the testimony of Robert G. Monson, of box 257, Mexico, NY, be included in the record.

[The prepared statement of Mr. Monson appears at the conclusion of the hearing.]

Mr. COELHO. Without objection, so ordered.

Mr. HORTON. Again, Mr. Chairman, I want to thank you for being here. It is, I know, an imposition on your part. It means a lot to the people here in Upstate New York for you to be here and for them to have this opportunity to testify personally before a committee of Congress, which is dealing with this subject that is of vital interest to them. Thank you very much.

Mr. COELHO. Mr. Horton, I would just say also that I want to let everybody here know that I appreciate the cooperation of all of you in regard to getting through all of these witnesses and all of this testimony. I particularly appreciate the members of the New York delegation who have sat with me during this testimony and I particularly thank Frank for suggesting that we hold this hearing and pushing me to do it.

It has been very enlightening for me and I do very much appreciate it. I want to also say to you that some of you were concerned as to whether or not your testimony will be of any importance to the subcommittee or the full committee, I should tell you that even though we have completed the subcommittee mark, that we will be going to the full committee.

Regarding the comments that you made here today, I have already made some notes. We will be pursuing some of those comments to see if we can make some revisions for the full committee.

As I also indicated, I would like to come back up and discuss with some of you, your concerns and see if we can do something before we come to the House floor to make sure that the Northeast region feels that they are part and parcel of this solution. Not only in being penalized, which some of you were saying, but that also you are beneficiary, which I do think you are. Hopefully, with some more communications, we can do the job that is needed.

Again, thank you everybody and the subcommittee is now adjourned.

[Whereupon, at 12:35 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT TO THE HOUSE SUBCOMMITTEE ON LIVESTOCK, DAIRY & POULTRY
OF THE
HOUSE COMMITTEE ON AGRICULTURE
BY
CONGRESSMAN STAN LUNDINE
JUNE 28, 1985
AUBURN, NEW YORK

MR. CHAIRMAN:

I AM VERY PLEASED TO BE HERE THIS MORNING TO WELCOME YOU TO UPSTATE NEW YORK, AND TO SHARE MY THOUGHTS WITH YOU AND YOUR SUBCOMMITTEE ON SEVERAL DAIRY ISSUES AFFECTING MY STATE. I COMMEND THE SUBCOMMITTEE FOR HOLDING THIS HEARING, AND LOOK FORWARD TO THE TESTIMONY OF DAIRY FARMERS, BUSINESSMEN, AND STATE OFFICIALS INVOLVED IN THE NEW YORK DAIRY INDUSTRY.

AGRICULTURE IS THE MAJOR ECONOMIC ACTIVITY IN THE STATE OF NEW YORK. IT EMPLOYS MORE PEOPLE AND GENERATES MORE INCOME THAN ANY OTHER SINGLE ACTIVITY. GIVEN THIS KEY ROLE IN OUR STATE AND NATIONAL ECONOMY, I STRONGLY BELIEVE THAT BOTH FEDERAL AND STATE POLICY SHOULD SEEK TO PROMOTE AGRICULTURE BY ASSISTING BEGINNING FARMERS TO ESTABLISH VIABLE OPERATIONS, AND HELPING CURRENT FARMERS INCREASE THEIR PRODUCTIVITY. THOSE WHO CAN FARM SHOULD HAVE EVERY OPPORTUNITY TO DEMONSTRATE THAT THEY CAN BE PROFITABLE PRODUCERS. FEDERAL AND STATE FARM POLICY SHOULD PROMOTE AGRICULTURAL PROFITABILITY AND PROVIDE ASSURANCE THAT FARMERS WILL HAVE ACCESS TO NEEDED CREDIT.

IN MY DISTRICT, DAIRY FARMS TEND TO BE SMALL FAMILY OPERATIONS WITH 40 TO 50 MILKING COWS. MANY OF THESE FARMERS ARE OPERATING ON VERY THIN MARGINS DUE TO RISING COSTS AND HEAVY DEBT SERVICE. WHAT IS IRONIC IN THE CURRENT SITUATION IS THE FACT THAT FARMERS ARE BEING FORCED OFF THEIR FARMS AND OUT OF BUSINESS BY FEDERAL POLICIES WHICH ARE INTENDED TO REDUCE SURPLUS MARKETINGS, WHILE LOCAL CHEESE PLANTS LIKE LEPRINO FOODS IN CHEMUNG COUNTY COMPLAIN OF NOT BEING ABLE TO SECURE ENOUGH MILK IN THE REGION TO MEET THEIR PRODUCTION NEEDS.

RECENT FEDERAL POLICIES HAVE INCREASED THE NUMBER OF FARM BANKRUPTCIES IN NEW YORK STATE. WHAT CONCERNS ME MOST IS THAT THE LOSSES WOULD NOT BE CONFINED MERELY TO THE MORE INEXPERIENCED OR INEFFICIENT PRODUCERS. IT WOULD ALSO FORCE BANKRUPTCY UPON THE MORE EFFICIENT FARMERS WHO HAVE ALREADY CUT COSTS AND PLACED THEMSELVES HEAVILY IN DEBT TO IMPROVE OR MODERNIZE THEIR FARMS. IF WE LOSE THESE PRODUCERS, THE DAIRY INDUSTRY IN NEW YORK WILL BE IN SERIOUS TROUBLE.

LOOKING BACK IS IMPORTANT, BUT THE REASON WE ARE ALL HERE TODAY IS TO LOOK AHEAD. IN 1985, THE HOUSE AND SENATE AGRICULTURE COMMITTEES HAVE SOME VERY TOUGH CHOICES TO MAKE AS THEY WRITE FARM LEGISLATION WHICH WILL SET THE DIRECTION OF AGRICULTURE POLICY FOR THE NEXT SEVERAL YEARS. ALL FARM SUBSIDIES MUST BE LOWERED THIS YEAR IF WE ARE TO PASS A FARM BILL WHICH WILL CONTRIBUTE TO THE CONGRESS' OVERALL EFFORT TO REDUCE DEFICITS. THE DAIRY PROGRAM IS NO EXCEPTION. DAIRY PRODUCERS WILL HAVE TO TAKE THEIR FAIR SHARE OF CUTS ALONG WITH THE OTHER COMMODITY PRODUCERS IN ORDER TO CONFORM TO THE NECESSARY BUDGET RESTRAINTS.

MR. CHAIRMAN, I SEE THREE IMPORTANT POINTS IN THE SO CALLED "DAIRY UNITY BILL", H.R. 2850, ON WHICH I WOULD LIKE TO COMMENT BRIEFLY. I AGREE IN PRINCIPLE WITH THE FORMULA PRICING PROVISION, BUT I DO NOT UNDERSTAND WHY A CAP ON PAYMENTS TO INDIVIDUAL FARMERS CANNOT BE INCLUDED. THE FEDERAL GOVERNMENT DOES NOT NEED TO SUBSIDIZE ENORMOUS CORPORATE FARMS. WE SET UP THESE PROGRAMS WITH THE FAMILY FARMER IN MIND, AND OTHERS COME IN AND ABUSE THEM. I FIRMLY BELIEVE THAT IT IS THIS TYPE OF UNINTENDED ABUSE OF THE SYSTEM WHICH HAS MADE THE CURRENT DAIRY PROGRAM VIRTUALLY UNAFFORDABLE.

WITH REGARD TO THE ATTEMPT TO INCLUDE SUPPLY MANAGEMENT TECHNIQUES IN THIS LEGISLATION, I CANNOT SUPPORT A PERMANENT EXTENSION OF A DIVERSION PROGRAM. IN 1983, THE OVERSUPPLY OF DAIRY HAD REACHED A CRISIS LEVEL AND I FELT--AND IN HINDSIGHT I STILL FEEL--THAT DIVERSION WAS THE RIGHT WAY TO GO. IT IS THE PRINCIPLE BEHIND THE DIVERSION PROGRAM WHICH I CANNOT ACCEPT. I AM ABSOLUTELY OPPOSED TO A POLICY OF PAYING FARMERS NOT TO PRODUCE MILK.

IN LIEU OF DIVERSION, I STRONGLY URGE THE SUBCOMMITTEE TO CONSIDER A SYSTEM OF TWO-TIER PRICING WHEREBY THE GOVERNMENT WILL PROVIDE A REASONABLE LEVEL OF SUPPORT FOR THE AMOUNT OF MILK WHICH WILL MEET ESTIMATED NATIONAL CONSUMPTION NEEDS. FOR ANY ADDITIONAL MILK MARKETINGS, THE GOVERNMENT SHOULD PAY A MUCH LOWER PRICE AND THEN AGGRESSIVELY MARKET THIS SURPLUS ON THE WORLD MARKET.

I STRESS THIS POINT, MR. CHAIRMAN, BECAUSE IN NEW YORK STATE, OUR FARMERS PAID IN $71.3 MILLION AND RECEIVED ONLY $38.4 MILLION IN RETURN DURING THE 15 MONTH DIVERSION PROGRAM--ALMOST TWICE AS MUCH PAID IN MILK TAXES AS RECEIVED IN DIVERSION PAYMENTS. WHILE I AM SENSITIVE TO THE FACT THAT WE ARE PASSING THROUGH A PERIOD OF OVER-PRODUCTION IN THE DAIRY INDUSTRY, IT NEED NOT TAKE ON THE CRISIS LABEL GIVEN TO IT BY THE ADMINISTRATION. IN FACT, IN NEW YORK STATE TODAY, THERE IS NO MILK SURPLUS. YOU CAN GO TO ANY PART OF THE STATE, AND THE COMPETITION FOR MILK IS PROBABLY AS GREAT AS EVER. WE NOW HAVE THE DEMAND FOR ALL THE MILK PRODUCED IN NEW YORK AND EVEN MORE.

THIRD, I WOULD LIKE TO COMMEND THE SUBCOMMITTEE'S EFFORT TO RAISE THE CLASS I PRICE. THIS NEW PRICING SCHEME WILL HELP THE MILK-DEFICIT AREAS IN THIS COUNTRY, THE SOUTHEAST IN PARTICULAR, TO MEET THE DEMAND FOR FLUID MILK.

I DO NOT PRETEND TO HAVE ALL THE ANSWERS TO THE VERY COMPLEX QUESTIONS INVOLVED IN DAIRY POLICY. I DO BELIEVE, HOWEVER, THAT BECAUSE THE MILK-PRODUCING REGIONS IN THIS COUNTRY ARE SO RADICALLY DIFFERENT, OUR POLICY SHOULD BE REGIONALIZED. THE NATION SHOULD BE DIVIDED INTO REGIONS, EACH OF WHICH SHOULD BE ADDRESSED SEPARATELY WITH REGARD TO PRICING AND SUPPLY MANAGEMENT POLICIES, WHILE RETAINING CONSISTENT NATIONAL PRINCIPLES. IT IS SIMPLY UNREALISTIC TO THINK THAT WE CAN DESIGN A SINGLE DAIRY PRICING MECHANISM WHICH WILL BE FAIR TO FARMERS FROM CALIFORNIA TO NEW YORK, WHEN SUPPLY AND DEMAND CHARACTERISTICS VARY WIDELY.

I ALSO FEEL THAT WE MUST STOP PENALIZING FARMERS WHO HAVE DONE THEIR JOB THE WAY FEDERAL POLICY IMPLIED THEY SHOULD. THEY HAVE CUT COSTS AND MODERNIZED THEIR OPERATIONS. NOW WE ARE ASKING THEM TO CUT BACK ON THEIR PRODUCTION AND ACCEPT A LOWER LEVEL OF SUPPORT FROM THE FEDERAL GOVERNMENT. MOST OF ALL, MR. CHAIRMAN, I WANT TO SEE A DAIRY PROGRAM WHICH WILL BE FLEXIBLE ENOUGH TO ALLOW NEW, YOUNG FARMERS TO CONTINUE TO ENTER THE BUSINESS. I STRONGLY SUPPORT WHATEVER ACTIONS ARE TO BE MADE IN RESISTANCE TO THE INCREASING CONCENTRATION OF FARMLAND UNDER THE OWNERSHIP OR CONTROL OF NON-AGRICULTURAL CORPORATIONS.

IN ADDITION, I FEEL THAT DAIRY PROMOTION AND RESEARCH IS ABSOLUTELY ESSENTIAL IF WE ARE TO ADDRESS THE SERIOUS PROBLEM OF DECLINING CONSUMER DEMAND FOR MILK AND DAIRY PRODUCTS. THE POTENTIAL MARKET FOR NEW OR IMPROVED DAIRY PRODUCTS IS SIGNIFICANT. THE GROWTH OF THE MARKET FOR YOGURT DURING THE PAST DECADE IS A CLEAR EXAMPLE OF THIS POTENTIAL. WE SHOULD CONTINUE THE OPERATIONS OF THE NATIONAL DAIRY PROMOTION BOARD AS IT HAS BEEN RESPONSIBLE FOR A MARKED INCREASE IN THE POPULARITY OF DAIRY PRODUCTS ON THE CONSUMER MARKET.

FINALLY, I WOULD LIKE TO BRING THE SUBCOMMITTEE'S ATTENTION TO THE ISSUE OF CASEIN IMPORTS. I HAVE COSPONSORED LEGISLATION INTRODUCED BY MY COLLEAGUE, REP. CHARLIE ROSE, WHICH WILL LIMIT IMPORTS OF MILK PROTEIN PRODUCTS TO 50% OF THE LEVEL OF IMPORTS OVER THE PAST FIVE YEARS. THIS LEGISLATION CONTAINS A LICENSING SYSTEM BASED ON PRODUCT USE WHICH PROVIDES FOR SUFFICIENT CASEIN IMPORTS TO MEET THE NEEDS IN SPECIALTY AND INDUSTRIAL USE PRODUCTS, WITHOUT DISPLACING DOMESTIC MILK SOLIDS. I WAS VERY PLEASED THAT THE SUBCOMMITTEE HELD HEARINGS ON THE CASEIN IMPORT PROBLEM AND, HOPEFULLY, THE 99TH CONGRESS WILL BE SUCCESSFUL IN MITIGATING THIS PROBLEM AS THESE IMPORTS HAVE A SIGNIFICANT ADVERSE AFFECT ON THE DAIRY INDUSTRY NATIONWIDE.

I THANK YOU FOR THE OPPORTUNITY TO EXPRESS MY VIEWS ON THE FUTURE OF DAIRY POLICY IN THIS COUNTRY, AND I URGE THE SUBCOMMITTEE TO CONSIDER MY REMARKS WHEN YOU CONTINUE YOUR WORK ON THE FARM BILL. I LOOK FORWARD TO WORKING TOGETHER WITH YOU IN THE MONTHS AHEAD.

Testimony of Congressman Fred J. Eckert
before the
House Agriculture Committee
Subcommittee on Livestock, Dairy, and Poultry
Field Hearing

Auburn, New York
28 June 1985

Congressman Coelho, Members of the House Subcommittee on Dairy, Livestock and Poultry. Thank you for allowing me to testify before the Subcommittee and share with you some of my thoughts on the dairy portion of the 1985 Farm Bill.

Agriculture is New York's largest industry, with dairy farming being its largest component. New York ranks third in the nation in dairy farming. New York produces 11.5 billion pounds of milk annually, with a value of $1.7 billion. New York produces 8.3 percent of the country's milk and 44 percent of the milk produced in the Northeast.

The dairy portion of the 1985 Farm Bill will have the greatest impact on New York's agricultural economy because $60 of every $100 in farm income is derived from dairy farming. The livelihood of the owners and operators of New York's 15,000 dairy farmers, 620 of which are located in the four counties in my district, is on the line as we write this year's dairy bill.

When you look at the trend in the dairy industry over the past 25 years you find the situation in New York is pretty much the same as it is throughout the country. We have fewer dairy farms, with fewer cows, producing more milk. There is no sign that this trend will stop or reverse itself. In fact, the evidence is that milk production per cow will continue to increase. A recent report issued by the Congressional Office of Technology Assessment highlighted two new experimental technologies, the Bovine Growth Hormone and computer-controlled feeding, which could increase milk production up to 20 percent a year per cow. Clearly, agricultural technology is outpacing the U.S. Congress' attempts to control milk production. Instead of writing a dairy bill that ignores these economic and technological trends, let's write a dairy bill that takes these trends into consideration. While we need to insure a stable supply of milk, we also need to increase our focus on selling more milk on the domestic and international markets.

I have some suggestions:

First, we can no longer ignore the predatory import practices of foreign milk protein product producers, specifically casein imports by the European Economic Community and New Zealand. The massive dumping of casein in the United States over the past five years has dampened milk use and cost taxpayers millions of dollars in Commodity Credit Corporation purchases of surplus dairy products. It makes little sense for the United States to import the equivalent of 6.3 billion pounds of skim milk as casein when the Commodity Credit Corporation is expending $1.5 billion in taxpayer funds to purchase 8.3 billion pounds of milk. These milk protein product producers have targeted the cheese and ice cream industries -- two major New York industries which use our milk products -- for their predatory practices. What is needed is legislation which uses the concept found in Congressman Rose's bill, H.R. 1629. The concept in his bill would restrict the amount of milk protein products to 50 percent of the average annual quantity which entered the United

States between 1979 and 1983 but would establish a licensing system for those who use the product and there are no substitutes available or for which domestically produced skim milk or skim milk solids cannot be substituted.

Second, there is a market for surplus American dairy products in the world. In 1984, the Department of Agriculture reached an agreement with Mexico in which Mexico agreed to purchase 20,000 metric tons of nonfat dry milk. Since December 1984, the CCC concluded an agreement to sell 41,000 tons of butter, cheese and nonfat dry milk to Egypt. A barter agreement with Jamaica disposed of 24,525 tons of dairy products. We recently concluded additional sales agreements with Egypt, Mexico and Iraq. There is a market for American dairy products although international milk production has steadily increased. Our competitors in the European Economic Community unfairly subsidize their farm exports as they try to take away our markets. They refuse to talk with us to try and reach a resolution to the problem. They want to continue along on their merry way of unfairly subsidizing farm exports in hopes that we will lose interest in the matter -- and eventually -- lose the markets. It is time we give them a big dose of their own medicine. Secretary Block recently announced a $2 billion export enhancement program which will offer government-owned commodities as bonuses to U.S. exporters to expand sales of agricultural products in targeted markets. We need to make sure that the large government-owned dairy surplus is a part of that program and is used to increase our dairy exports.

Third, let's repeal the cargo preference requirement on government-supported agricultural exports. The cost to the taxpayers and the cost to our farmers in lost sales now outweighs the value of the subsidy provided our maritime industry. It's a competitive international market for agricultural exports. Let's not burden the agricultural export industry with the problems of our maritime industry.

Finally, American agricultural exporters are having trouble selling our agricultural products overseas because of the high value of the dollar. The high value of the dollar is attributable to our large deficit. After watching and participating in the Congress' efforts to reduce the deficit, I am more convinced than ever that the current Congress lacks the will to make the tough decisions required to cut the deficit. I agree with the New York Farm Bureau and the New York Grange that we need a Constitutional Amendment to require a balanced federal budget. That is the only way we are going to control federal spending, balance the budget and bring down interest rates so that the value of the dollar returns to an appropriate level so that we can regain our share of world agricultural sales.

Thank you.

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New York State Senate Committee on
Agriculture
Senator Steve Riford, Chairman
Room 944, Legislative Office Building
Albany, N.Y. 12247 - (518) 455-3264

STATEMENT TO THE HOUSE SUBCOMMITTEE ON DAIRY, LIVESTOCK AND POULTRY

BY
L. S. RIFORD, JR.
CHAIRMAN, SENATE COMMITTEE ON AGRICULTURE
JUNE 28, 1985
AUBURN, NEW YORK

CONGRESSMAN COELHO, MEMBERS OF THE HOUSE SUBCOMMITTEE ON DAIRY, LIVESTOCK AND POULTRY, LADIES AND GENTLEMEN; AS CHAIRMAN OF THE NEW YORK STATE SENATE COMMITTEE ON AGRICULTURE AND AS A FORMER DAIRY FARMER, MILK DEALER AND MILK RETAILER, I AM PLEASED AND HONORED TO BE ABLE TO SAY A FEW WORDS ABOUT DAIRY LEGISLATION.

AGRICULTURE IS OUR STATE'S LARGEST INDUSTRY. DAIRY FARMING IS THE PRIMARY ENTERPRISE, WITH DAIRY CATTLE AND THEIR PRODUCTS ACCOUNTING FOR MORE THAN TWO-THIRDS OF FARM CASH RECEIPTS.

SOILS, CLIMATE AND TOPOGRAPHY HAVE MADE NEW YORK PRIMARILY A DAIRY STATE, RANKING THIRD IN MILK PRODUCTION IN THE UNITED STATES. THE STATE HAS MAINTAINED ITS SHARE OF THE NATION'S MILK PRODUCTION - ABOUT 8.5 PERCENT - FOR A LONG TIME. COST OF PRODUCTION IS COMPETITIVE WITH OTHER MAJOR MILK PRODUCING AREAS. THERE HAVE BEEN MAJOR CHANGES IN THE MARKETING STRUCTURE IN THE LAST 30 YEARS, BUT THE CONCENTRATION OF DAIRY IN THE STATE HAS PROVIDED BOTH AN EFFICIENT MARKETING SYSTEM AND A STRONG DAIRY SUPPORT SYSTEM.

OUR DAIRY FARMS ARE SMALL COMPARED TO CERTAIN MILK PRODUCING AREAS OF THE COUNTRY - AVERAGING ABOUT 65 MILK COWS. THE FARMER AND HIS FAMILY FURNISH MOST OF THE LABOR. THEIR SKILLS AND CAPITAL ARE COMMITTED TO THE DAIRY ENTERPRISE. THEIR OPTIONS ARE ALMOST NIL AND IT IS EXTREMELY DIFFICULT FOR A FARMER AND HIS FAMILY TO DISCONTINUE DAIRYING.

-CONTINUED-

During the last 5 years, the income that the producer and his family have received for their labor and capital has drastically declined as prices have remained stable or fell, and costs have increased. I am convinced the present level of prices is certain, however slowly and painfully, to cause an adjustment in supply. The demand for farm land has been declining and there has been a substantial fall off in new capital investment in dairy farms.

Dairying requires a heavy investment. Moving in and out of business is a very slow process. With the momentum built up in the late seventies and early eighties by mistaken price support policies of the past, an over reaction, if you will, to the shortages of milk in the early seventies, it will take some time to bring supply into reasonable adjustment with demand. A price as low as $10 or even $9 will not bring an immediate adjustment in supply, but it would mean thousands of hard working dairy farm families would be subjected to great hardship. After such a period of low prices, milk shortages would appear and the boom and bust cycle would again be started.

We do need a continuation of the dairy support program. Supports should be set at a level which will not unduly stimulate production nor depress it below the level of market needs. A new dairy parity formula needs to be developed that considers the cost of producing milk and takes changes in productivity into account as well as the supply - consumption balance as measured by Commodity Credit Corporation purchases. But support levels for the years immediately ahead should permit a period of adjustment, an orderly transition. The present level of support prices should accomplish this.

My statement for your hearing on June 5th endorsed Congressman Rose's bill dealing with casein imports. It is my belief that the current huge imports of casein in other milk proteins have seriously eroded markets for dairy products and have aggravated the oversupply situation. Massive imports of casein interfere with domestic price support programs and

DEPRESS DAIRY MARKETS. IT IS INCONSISTENT FOR THE COMMODITY CREDIT CORPORATION TO BUY--AT A COST OF $1.5 BILLION--8.5 BILLION POUNDS OF MILK EQUIVALENT OF SURPLUS DAIRY PRODUCTS, BUT AT THE SAME TIME IMPORT THE EQUIVALENT OF 6.3 BILLION POUNDS SKIM MILK AS CASEIN. IT IS EQUALLY RIDICULOUS FOR THE BUREAU OF CUSTOMS TO CLASSIFY THIS MILK PROTEIN AS A "CHEMICAL" AND EXEMPT IT FROM DAIRY IMPORT QUOTAS. MUCH OF THE CASEIN COMES FROM EUROPEAN COMMUNITY COUNTRIES WHERE PRODUCTION IS HEAVILY SUBSIDIZED. IT IS MY BELIEF THAT OUR DAIRY FARMERS ARE THE MOST EFFICIENT PRODUCERS IN THE WORLD, BUT IT IS TOUGH FOR THEM TO COMPETE AGAINST THE TREASURIES OF EUROPEAN NATIONS.

SOME WOULD SAY THAT CASEIN IS NOT PRODUCED IN THE UNITED STATES AND THAT IT IS A NECESSARY INGREDIENT IN MANY FOOD PRODUCTS. NON FAT MILK SOLIDS WOULD LIKELY BE INTERCHANGEABLE WITH AT LEAST ONE HALF THE CASEIN USED FOR NON INDUSTRIAL PRODUCTS, IF PRICES WERE COMPARABLE. REDUCTION OF IMPORTS OF MILK PROTEIN PRODUCTS WOULD NOT PREVENT USE OF CASEIN IN FOODS WHERE NECESSARY FOR NUTRITION OR FUNCTIONAL PURPOSES. IF MILK PROTEIN PRODUCTS ARE RESTRICTED, DOMESTIC PROTEIN COULD BE AVAILABLE AT PRICES COMPARABLE TO DOMESTIC PRICES OF NON-FAT MILK SOLIDS. UNLIMITED MILK PROTEIN IMPORTS, AT A FRACTION OF DOMESTIC VALUES, MAKE IT ECONOMICALLY IMPOSSIBLE TO MANUFACTURE CASEIN IN THIS COUNTRY.

WITHOUT SUBSIDIZED CASEIN IMPORTS, CCC PURCHASES WOULD BE VASTLY DIMINISHED, DOMESTIC DAIRY PRICES WOULD IMPROVE, THOUSANDS OF OUR HARD WORKING DAIRY FARMERS WOULD NOT HAVE TO QUIT AND TAXPAYERS WOULD BE BETTER OFF.

TO MAKE MATTERS WORSE, FOR REASONS NOT YET CLEAR, THE MILK EQUIVALENT OF 507 MILLION POUNDS, OVER QUOTAS, IN THE FORM OF CHEESE AND OTHER DAIRY PRODUCTS WERE IMPORTED INTO THE COUNTRY LAST YEAR.

VARIOUS ESTIMATES SUGGEST THAT 50 TO 60 BILLION POUNDS OF MILK HAVE BEEN DISPLACED BY IMITATIONS THAT MASQUERADE AS THE REAL THING. CASEIN IS A PRINCIPLE INGREDIENT OF THESE PRODUCTS. FEDERAL LAW STATES THAT IMITATION PRODUCTS BE CLEARLY LABELED "IMITATION", BUT THE INTENT OF THE LAW HAS BEEN MISINTERPRETED BY BOTH THE FOOD AND DRUG ADMINISTRATION

AND THE USDA. THEIR REGULATIONS PERMIT THE USE OF THE WORD "SUBSTITUTE" IF THE PRODUCT IS , THEORETICALLY, NUTRITIONALLY EQUIVALENT IN CERTAIN RESPECTS.

PIZZA IS AN EXAMPLE OF HOW LABELING POLICIES HAVE INJURED DOMESTIC DAIRY MARKETS. HISTORICALLY THE PIZZA HAS BEEN A BREAD BASED PRODUCT TOPPED WITH CHEESE, WITH OR WITHOUT CERTAIN MEAT PRODUCTS. IN 1973 THE USDA PROPOSED THESE PRODUCTS CONTAIN 12 PERCENT CHEESE, BUT NEVER IMPLEMENTED THE REGULATION. CURRENTLY, THE USDA IS CONSIDERING RULING THAT PIZZAS MUST CONTAIN AT LEAST 6 PERCENT CHEESE WITH THE OTHER 6 PERCENT IMITATION CHEESE. THIS PROPOSAL HAS BEEN UNDER CONSIDERATION FOR NEARLY TWO YEARS WITHOUT USDA ACTION. CURRENTLY A PIZZA CAN HAVE 9 PARTS OF THE ERSATZ PRODUCT, AND ONLY ONE PART REAL CHEESE. AND, THE IMITATION CAN BE CALLED "SUBSTITUTE". CONGRESS COULD COME TO THE RESCUE OF OUR DAIRY FARMERS BY INSISTING THAT WHEN IMITATIONS ARE USED, LABELS PERMIT CONSUMERS TO KNOW WHAT THEY ARE BUYING.

THE DAIRY PRODUCTION STABILIZATION ACT OF 1983 CONTAINED A PROVISION THAT FOR THE FIRST TIME ASSURED A NATIONAL PROGRAM OF PROMOTION AND RESEARCH. IT APPEARS CERTAIN THAT THE NATIONAL REFERENDUM WILL BE APPROVED BY PRODUCERS. A HIGHLY SUCCESSFUL PROMOTION ORDER HAS BEEN IN EFFECT IN NEW YORK STATE SINCE 1973. OUR DAIRY FARMERS HAVE RECEIVED SUBSTANTIAL DIVIDENDS FROM THIS EFFORT AND IT HAS BEEN POPULAR WITH PRODUCERS. IT SHOULD BE CONTINUED ON THE NATIONAL LEVEL BUT WITH THE PROVISION, AS NOW PROVIDED, THAT ONGOING, QUALIFIED STATE OR REGIONAL GENERIC PROMOTION OR NUTRITIONAL EDUCATION PROGRAMS WILL GET APPROPRIATE CREDIT. THAT IS, THEY SHOULD BE PERMITTED TO KEEP UP TO TWO-THIRDS OF THE ASSESSMENT CHARGE.

THE SPECIAL MILK PROGRAM THAT SUBSIDIZED THE SALE OF MILK IN SCHOOLS AT SNACK TIMES WAS PERHAPS THE LEAST EXPENSIVE OF GOVERNMENT EXPENDITURES FOR SURPLUS MILK. A CALCULATION SUGGESTS IT WOULD BE LESS EXPENSIVE TO FURNISH FREE MILK TO CHILDREN IN SCHOOLS THAN TO BUY SURPLUS DAIRY PRODUCTS. CURRENT NUTRITION PROGRAMS ARE ALSO OF SUBSTANTIAL HELP IN SUSTAINING CONSUMPTION DURING OUR OVERSUPPLY SITUATION.

CONGRESSMAN COELHO, ON BEHALF OF THE NEW YORK STATE SENATE AND OUR DAIRY FARMERS, LET ME EXPRESS OUR APPRECIATION FOR THIS HEARING. I HOPE MY STATEMENT WILL BE HELPFUL TO YOUR DELIBERATIONS.

TESTIMONY PRESENTED BY J. C. K. BUCKLEY

VICE PRESIDENT, PURCHASING

NESTLÉ FOODS CORPORATION

Thank you, Mr. Chairman, for providing the opportunity for Nestlé Foods Corporation to be represented here today to make some comments on the pending Dairy Legislation.

My name is John Buckley, and I am Vice President of Purchasing for Nestlé Foods. Our administrative headquarters are located in White Plains, New York. We have 13 manufacturing facilities nationwide, of which three are significant users of dairy products and fresh milk in particular. Of our total payroll of around 5,500 people, over 2,000 are employed in New York State. Our largest chocolate manufacturing plant, which is also our largest user of fresh, liquid milk for manufacturing purposes, is located in Fulton, New York, and employs over 1,000 personnel. The first facility on that site was commissioned in 1900, and in the intervening 85 years that plant has, of course, been expanded and modernized many times. We have, therefore, an 85-year history of continuous and intimate contact with the dairy industry in the northeast.

Turning now to the pending legislation, we are in principle wholeheartedly in agreement with the Administration's objectives of providing in the 1985 Farm Bill a comprehensive approach that is market oriented in design and long term in nature. In our view the farming community and the dairy industry in particular needs to be able to plan ahead on a long-term basis with the Farm Bill providing a framework within which adjustments can be made to the ever changing economic environment but above all ensuring a continuous, adequate and competitive supply of top quality products to the market.

We are all aware Mr. Chairman of the very large stocks of some agricultural commodities that exist in the United States--stocks which are well in excess of anticipated needs. Included in those stocks are large quantities of dairy products comprised of non-fat and skim milk powder, cheese and butter. It has been estimated that 10.4 billion pounds of milk equivalent was added to the surplus last year from production amounting in total to about 137 billion bounds. Government financed stocks now total approximately 944 million pounds non-fat and skim milk powder, 610 million pounds cheese, 164 million pounds butter. We recognize the need for measures to be taken to reduce such excess stocks to more manageable proportions, and the Administration's proposals provide one method of so doing over a period of time.

However, Mr. Chairman paradoxically in a country amassing such surpluses we, as Nestlé Foods, located primarily in the northeast sector of the country, have found it increasingly difficult to maintain an adequate supply line at all times. Indeed last winter there was an actual shortage of fresh milk supplies for our plant in Fulton, New York, and we were obliged to make good the deficit of fresh milk by using some quantities of whole milk powder in our manufacturing processes. This necessitated our printing, obviously at some expense, new labels with a changed ingredient statement to accommodate this change. I may add at this point that we at Nestlé Foods normally rely on using fresh, whole milk for the manufacture of our quality chocolate products, and we only use whole milk powder as a last resort.

To oversimply a complex situation, the insatiable thirst of the large urban areas in the northeast draws off close to 50% of the available milk supply for the fresh, liquid market--and rightly so. As was proven last winter, the balance is not sufficient to supply all other needs in the northeast during that time of the year when milk production is at its seasonal low. The surplus of milk products previously referred to arises essentially in those other parts of the country where there is not a large concentration of urban areas and where intensive milk production activities can be conducted on a large scale.

Therefore, while in principle we support the Administration's objectives aimed at reducing the surplus, in practice we do not feel that a broad brush national policy provides the complete answer. Rather, we believe that while the overall total of national production could be usefully reduced, regional departures from the norm should be recognized and special provisions be applied to areas such as the northeast to encourage a greater availability of fresh, liquid milk supplies and thus maintain in the northeast an expanding opportunity for the small dairy farmer to continue in business on a long-term basis. We are convinced that this objective could be achieved in this area where alternative economic farming opportunitieo are rather limited.

JCKB:amb
6/27/85

STATEMENT OF PHILIP C. GRIFFEN, PRESIDENT, NEW YORK FARM BUREAU

My name is Phil Griffen. I own and operate a 750 acre, 100 cow dairy farm in Saratoga County, New York. Currently, I serve as President of New York Farm Bureau, a 22,600 member general farm organization. I would like to thank the House Agriculture Subcommittee for allowing me to comment on the dairy provisions for the 1985 Farm Bill.

New York's dairy industry comprises 57% of the cash receipts from agriculture, New York's largest industry. Our 930,000 cows produced 11.4 billion pounds of milk in 1984, making New York the third largest production state in the U.S. In 1983, New York was nationally ranked seventh in butter production, fourth in cheddar cheese production, second in Italian cheese production, first in cream cheese and cottage cheese and fourth in ice cream production.

New York dairymen are anxiously awaiting the crucial decisions that you, as lawmakers, must make on the 1985 Farm Bill. Dairy farmers have just completed a 15 month period where long range plans and decisions for the most part have been put on hold. Without the ability to look to the horizon and determine, with reasonable accuracy, what the price of milk will be over the next two to five years, producers are unable to do the necessary financial planning to remain competitive in the future.

Our industry has been strung along for the last four years with bandaid attempts to resolve the dairy surplus situation. Not only have these programs failed at correcting the problem, they also have allowed the dairy industry to bleed to the point where major surgery is necessary if it is to be saved.

Production trends for 1985 indicate that any gains in reducing the dairy surplus through the diversion program will be lost to production increases. Diversion program participants are adjusting their production upward in order to maintain cash flow levels necessary to run their businesses. The diversion program served only to delay the inevitable.

Current Farm Bill dairy proposals demonstrate a recognition by the dairy industry that major changes are necessary to reduce government expenditures and rebalance supply and demand. Farm Bureau members, through their extensive policy development process, voted in support of continuation of the dairy price support program, the elimination of parity from determining the support price and tying the price support levels to governement purchases. They also said no to any producer assessments for the purpose of funding a dairy program. This Farm Bureau policy was used as the foundation for the dairy title in Farm Bureau's Farm Bill (HR 1965/S.908).

Farm Bureau's Farm Bill is designed to increase producer income by discouraging price depressing surpluses. The level of government purchases is the last indicator of whether a support price is too high or tob low. The dairy title of HR 1965 includes the following provisions:

1. Continuation of the price support purchase program.
2. Determination of the support price using 90 percent of the previous three year's average all milk price. This price would be factored in the supply-demand adjuster at the 100 percent bracket.
3. Adjusted support price to be determined by the following supply-demand adjuster:

CCC Net Purchases (1) bil. lbs.	% of Support Price (2) percent	Estimated Adjusted Support Price, 10/1/85 (3) dol. per cwt.
Less than 3	104	12.46
3.0-3.99	103	12.34
4.0-4.99	102	12.22
5.0-5.99	100	11.98
6.0-6.99	98	11.74
7.0-7.99	96	11.50

(1) Net purchases (total purchases, delivery basis, minus sales for unrestricted use, milk equivalent)

(2) Milk of average milkfat content

(3) Manufacturing grade milk of average milkfat content.

4. The Secretary of Agriculture to be provided discretionary authority to adjust the support price (7.0-7.99 bil. lb. bracket) by not more than three percent on April 1, 1986 and for any subsequent six-month period if CCC net purchases are estimated to exceed 7.99 billion pounds of milk equivalent during the next 12 months.

5. The support price and the adjusted support price to be adjusted semiannually, October 1 and April 1, to insure that dairymen are receiving adequate price signals within a reasonable time period.

The dairy price support program has been an effective tool in balancing supply and demand for most of its 36 year history. The program became ineffective when the Secretary of Agriculture lost his authority to lower the support price in 1979 when Congress fixed price supports at 80 percent of parity.

By determining the support price based on 90% of the previous three years' average all milk price, then further adjusting it up or down according to the level of government purchases, we are returning the dairy price support program to a "safety net" program rather than the income enhancing program it has been recently.

Through reaffirmation of the dairy price support program, Farm Bureau members are saying that the marketplace is the only true indicator of supply and demand. By modifying the program as outlined, dairy farmers will receive the proper signals as to whether they should increase or decrease production. Price will be the incentive.

The program is not oriented towards the free market. It does not exist in the dairy industry. Rather, it establishes government as a "safety net" that will prevent the drastic fluctuations in price that can be devastating to producers and consumers, alike. The price support program will continue to insure adequate quality supplies of milk and dairy products to consumers at reasonable prices, just as it always has.

Farm Bureau's Farm Bill is fiscally responsive. The dairy title of HR 1965 would reduce government expenditures for dairy to a projected four year average of $1.2 billion. A substantial decline from the $2 billion spent in 1983 and within budgetary guidelines accepted by the President. Once the supply-demand balance is achieved, government expenditures will be reduced even further. The six to seven hundred million dollar range is not unreasonable over time.

Farm Bureau's Farm Bill facilitates the long-term stability that is so vitally important to our industry. Recent programs have prohibited the industry from planning ahead more than one year in advance. Under HR 1965, farmers will be able to look ahead and know with reasonable certainty just what prices are likely to be. In addition, HR 1965 continues to maintain minimal government involvement in the dairy industry. Farmer assessed diversion programs along with other supply management systems create more bureaucracy which means more taxpayer expenditures for dairy programs. The track record of the dairy price support program is clear proof that government and private industry can work together in harmony at minimal taxpayer expense.

One cannot look at HR 1965 without recognizing common provisions contained in other Farm Bill proposals. Continuation of the dairy price support program and tying price supports to government purchases are two ideas that have received broad based support from most all producer groups. In addition, the replacing of parity with an updated economic formula to establish the support price and instituting a standby program for extreme circumstances are ideas supported by other organizations.

Farm Bureau recognizes that a standby program may be necessary; but, the program should perform as a standby, not an integral part of the provisions designed to balance supply and demand.

The standby provision contained in HR 1965 authorizes the Secretary of Agriculture to lower the support price by not more than 3% during any 6 month period if government purchases are expected to exceed 8 billion pounds of milk equivalent. Such a proposal maintains a continuity with the rest of the program in that it continues to use price as the sole incentive to increase or decrease production. It is a logical extension of the price support program.

Dairy farmer leadership in the Northeast have been working together for the purpose of developing a common position on the dairy provisions of the Farm Bill for over a year. "The 1985 Farm Bill Committee", representing producer groups in New York, Pennsylvania, New Jersey and Vermont has taken a position in support of all the provisions contained in the dairy title of HR 1965. In addition, the Committee does not support any form of farmer assessed diversion programs. New York Farm Bureau is proud to be an active participant on this Committee.

Current Congressional co-sponsorship of HR 1965 numbers at 83. New York Congressmen Wortley, Horton, Martin, Solomon and Boehlert and Senators Moynihan and D'Amato have demonstrated their leadership abilities by co-sponsoring the Farm Bureau Farm Bill. New York Farm Bureau greatly appreciates their support.

In closing, Farm Bureau is proud of HR 1965, because it is a product of an extensive grassroots policy development process. The bill substantially reduces taxpayer dollars into agriculture, allows producers to continue to make their own production decisions based upon accurate market signals, facilitates growth of export markets for wheat and feed grain commodities and helps to build a foundation for long-term stability in agriculture. New York Farm Bureau encourages your support. Thank you.

STATEMENT OF DAVID DODGE, COCHAIRMAN, DAIRY COMMITTEE, AND MEMBER, BOARD OF DIRECTORS, NEW YORK FARM BUREAU

My name is David Dodge. My wife, Nancy and I own and operate a 100 cow, 525 acre dairy farm newr Woodville, New York. I am co-chairman of the New York Farm Bureau Dairy Committee and member of the Board of Dirsctors. My remarks are made on behalf of New York Farm Bureau.

Delegates at the 1985 American Farm Bureau Annual Meeting voted "no" to farmer assessments by the federal government as part of any future dairy legislation. By doing so, they reaffirmed their belief that the dairy Price Support program has the ability to balance milk supply and demand. House Resolution 1965 was crafted to implement this policy directive.

There are important reasons why Farm Bureau's Farm Bill does not contain provisions for farmer funded supply control programs. I would like to share a few with you this afternoon.

The Farm Bureau membership believes that price, as conveyed through the Dairy Price Support program, can control dairy product surpluses. It is a proven program. Between 1949 and 1978, support prices were lowered 6 times. On each of these occasions, CCC purchases were reduced substantially. Modification of the dairy price support program as proposed in HR 1965 will permit a national dairy program to continue to effectively serve the farmer and consumer well into the future.

Implementing any sort of farmer assessed program to control production lends itself to be a substantial burden upon all producers. The effective pay price to dairymen will most likely be lower than the program embodied in HR 1965. Government expenditures will be less, at the expense of U.S. dairy farmers. During this period of severe economic recession in agriculture, why saddle producers with this extra burden, particularly when another program has a proven track record?

Once instituted, the diversion program will essentially be a permanent program. Once dairy farmers participate, they will find it very difficult to leave the program without substantially increasing production levels to meet cash flow needs. This production readjustment could be substantial enough to require instituting another diversion program. Today's upward production trends, following the last diversion program, illustrate exactly what I am talking about.

A continuation of any form of supply management will institutionalize the use of bases in dairy. The cost of quotas or bases are capitalized into the value of the farm and become a significant economic restriction to farmers wanting to get in or out of dairying. Since these bases increase the cost of producing milk, support prices are required to insure farmers receive an adequate return.

Consumers ultimately pay the bill through higher milk and dairy product prices.

Statistics from the recently ended dairy diversion program show that 36% of farmers not participating in the program decreased their production. In fact, nonparticipants with marketing declines of 5% or more exceeded the number of diversion participants. Obviously, other incentives such as price, brought forth production declines.

The cost of future diversion programs will most likely be greater than the program just ended. Now that dairy farmers have an understanding for how the program works, they probably will be more inclined to sign up if there is an economic incentive to do so. More diversion program participants mean more cost to producers. This scenario could easily eat up any producer gains achieved by maintaining artificially high support prices.

From a Northeast perspective, the diversion program cost our dairy farmers approximately 62.5 million dollars. In New York State, one dollar was lost for every two dollars paid as assessments. What we have experienced is a disproportionate flow of farmers' dollars out of the Northeast and Southeast into the Midwest.

How can our dairy industry remain competitive if we have to help pay for a program that shifts dollars out of our region into the Midwest farmer's pockets?

The Northeast has been an economically viable region for producing milk. The Italian cheese industry has established itself here because of this fact. We serve the largest population center in the country. Northeast dairy farmers can remain competitive in the future, but not if we have to continue to fund other production regions for the purpose of paying them not to produce. The Dairy Price Support program has treated all regions equitably. Farm Bureau believes the system should remain that way.

No other agricultural commodity sector, except for tobacco, has ever been assessed for producing too much product. The pressure to change to a system of farmer assessments comes from a region that stands to gain economically from such a system. The Northeast is not about to sit idly by and watch this program pass through Congress.

As mentioned in Mr. Griffen's statement, New York Farm Bureau has been an active participant on the "1985 Farm Bill Committee".

This committee, comprised of representatives from dairy cooperatives and general farm organizations from New York, Pennsylvania, Vermont and New Jersey voted not to support a producer assessed diversion program. This position was carried to the National Milk Executive Committee when Clyde Rutherford, National Milk Executive Committee Member and Chairman of the Farm Bill Committee, voted his "no" to the National Milk Porducers' five point plan.

The dairy industry has made great strides this year through general agreement on continuing the Dairy Price Support program, tying price supports to government purchases and replacing the parity concept with an updated economic formula. With such unified support on these major dairy provisions, why risk losing the whole system over a farmer assessed diversion program? Farm Bureau believes that the dairy provisions contained in HR 1965 will do the job of balancing supply and demand in a way that is acceptable to producers and fiscally responsive to taxpayers.

In closing, I would like to make a few comments regarding Class I differentials. Even though Farm Bureau supports updating the transportation differentials used in federal milk order pricing, we have some major concerns in the proposal that calls for change through the legislative procedure.

Under the Act of 1937, changes in federal marketing orders could be accomplished only through a referendum of producers marketing through the order. If the dairy industry supports the legislative route, will it come back to haunt us in the future? Once precedent is established, it would be possible for non-dairy farmer groups to launch major campaigns against the federal order system. In the long run, this initiative could be the demise of federal orders. Farm Bureau does not want to risk such a threat.

Thank you for the opportunity to testify.

STATEMENT OF HON. SHERWOOD L. BOEHLERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, agriculture is our state's largest industry. Dairy farming accounts for about two-thirds of farm cash receipts. New York ranks third in U.S. milk production, about 8.3% of the market. We lead the Northeast in dairy production and account for approximately 44% of the region's milk. Needless to say, dairy farming is important to the economic stability of New York's agricultural economy. Yet in the past few years, the income producers received for their labor and capital investment has been drastically reduced.

Our dairymen are not enamored with an assessment program because it shifts the cost of the program from the government to the producers. It hides the true cost of the dairy support program from consumers and taxpayers as well. I believe our dairymen want a simpler program that ties price supports to an average price history and the level of government purchases, with limits on support reductions in order to avoid abrupt dislocations.

The program that just expired in March created regional price inequities. While New York production declined slightly, California's increased. While New York is paying nearly twice as much in assessments as it receives in benefits, some states were receiving more than they paid in. Basically we had a redistribution of money to overproducers in other areas. Also a large part of the diversions programs payments went to relatively few producers. Eight percent of the farmers received thirty-seven percent of the payments. Yet the diversion program didn't cut overall production that much. If a diversion program is to achieve the needed reductions in supply and remain largely producer-financed, it will require a much larger hundredweight assessment. That possibility is unacceptable to those of us in the Northeast.

Casein imports compound the problem. I realize that since casein is a dairy substitute, these subsidized imports—which come mainly from New Zealand—are taking the place of genuine American dairy products. That means that more of our own dairy goods have to be bought by the government, thereby aggravating an already troubling dairy surplus problem. For example, The U.S. Department of Agriculture reported that in 1980, 152.2 million pounds of imported casein displaced 333 million pounds of nonfat dry milk, costing the U.S. government $300 million. That's intolerable. The current huge imports of casein in other milk proteins have seriously eroded markets for dairy products and have aggravated the oversupply of dairy products situation. Casein import depress dairy markets. It doesn't make sense for the Commodity Credit Corporation to buy billions of pound of milk equivalent while at the same time we are importing the equivalent of nearly an equal share of skim milk as casein. To make matters worse, customs has classified casein as a chemical thereby exempting this import form dairy quotas.

I co-sponsored, H.R. 431, would cut casein imports to half the quantity that was imported annually from 1979 through 1983.
That should go a long way toward rectifying the economic injustice that has been done to American dairy farmers. I'm generally in favor of free trade, but I realize that free trade must be fair trade. And subsidized casein imports are clearly "unfair" trade.

What we need, Mr. Chairman, is a plan that allows us to continue reducing the costly dairy surplus through a combination of reasonable price levels, continued dairy promotion, and a fairer trade policy that restricts subsidized imports of casein. Such a plan woudl restore the economic health of the dairy industry and would benefit dairy farmers and taxpayers alike.

Mr. Chairman, Members of the Hearing:

My name is Dick Redmond. I have a dairy farm nine miles south of Auburn in Scipio Center, N.Y.. Two sons are farming with me.

I want to express my appreciation to the Sub-committee Chairman, Congressman Coelho, for coming to Auburn and holding a hearing - especially in a Republican District - which reflects, I believe, a non-partisan anxiety to resolve some non-partisan problems in agriculture.

I will speak to three issues, the first for your information, and the second and third as suggestions for Committee consideration:

1) The position of the Northeast dairy farmer as it relates to his lack of influence on national diary policy and identify the priorities for correcting the situation;
2) The problem of casein and a proposal for its solution;
3) The diversion program - an objection and a recommendation.

First - Northeast dairy farmers do not have a unified voice because of a continuing intra-regional separateness, which is maintained through state laws and regulations, limited Federal Orders, and customs or beliefs which serve local constituencies. This combination of factors has provided a rock hard provincialism which is the primary force for maintaining disunity in the area.

The core problem is that about eight thousand dairymen or 50% in Federal Order #2 are not cooperative members. This is the poorest record in the nation. The situation can be reversed by adding amendments to Federal Order #2, thereby changing its current pooling provisions. Unfortunately, the consensus for change has yet to be recognized and agreed upon by those people in leadership positions responsible for proposing such changes.

In the matter of casein, the heart of the problem is in trying to draft domestic legislation which will not conflict with international agreements, such as GATT. The ever increasing imports of casein, which are not under quota, and replace domestically producted non-fat dry milk, if not controlled, will wreck an constructive effort to deal with dairy legislation in the '85 Farm Bill.

In my opinion, the Dairy and Poultry Sub-committee should seek to establish a National Milk Marketing Order for casein. Users of casein should pay into the CCC Pocl an amount per pound yet to be determined. It is only fair that casein importers, who have a price advantage with foreign governments subsidizing casein, share the burden of stabilizing the domestic dairy industry program.

The diversion program we have recently experienced was completely unfair to the younger farmers. Although technically all farmers were eligible, younger farmers with heavy debt loads did not have the options to participate compared to older, more mature businesses. It is essential that a different source of funding for a restructured diversion program be found other than that of young farmers' income. It might be possible to finance a limited fund with monies generated for the National Order for casein.

Thank you for the opportunity to make this statement; I would be glad to answere any questions or provide further information.

Vita: Richard E. Redmond has served:

- Chairman of the Agricultural Technical Advisory Committee for Trade Negotiations, Dairy Division, United States Department of Agriculture
- President of Dairylea Cooperative
- Director of National Council of Farmer Cooperatives
- Director of National Milk Producers' Federation
- President of the Cayuga County Farm Bureau
- Alumnus of the College of Agriculture and Life Sciences, Cornell University

HONORABLE MEMBERS OF CONGRESS,
Mr. Horton, Mr. Coelho

I am Henry vanLieshout from Verona, Central New York and I operate a 130 cow dairy farm with my sons.

First of all I would like to thank Mr. Horton for persuading Mr. Coelho to come to Central New York where the dairy industry is our livelihood. Secondly a big thank you Mr. Horton for co-sponsoring H.R.1965. In co-sponsoring this bill you sure have acted in the best interest of both the dairy industry and our country. Thank you!

With the dairy business as it is today, there is simply no way one can make any long range planning for a dairy operation. Yet the investments are very costly and have to be made on long term projections. A lot of our problems stem from the large National Debt. We ask you here again to reduce the size of the Federal government and the Federal deficit, not by increased taxes, but by cuts across the board.

We farmers cannot compete with high interest rates. For every 1% decline in interest rate, saves the U.S. farmers 2 billion on interest expenses.

For us dairy farmers, the number one stabilizer in our industry has always been and still will be the price support program. It brings a balance in supply and demand of dairy products. However, by not handling this mechanism properly, we got in a mess of over-production with all the bad things that followed. I believe very strongly, that we can correct the costly dairy surplus to the right level through a combination of 1) price support level; 2) continued promotion; and 3) through much fairer trade policies that restrict subsidized imports. Imports of casein alone accounted in 1984 for 3/4 of our surplus in milk equivalent. In the det

In the dairy price support program I would like to see milk supported at 90% of the previous 3 year average price of all milk, and have this price very closely tied to C.C.C. purchases. I think it should also be updated every year. Adjustments up and down based on government purchases, with a stand-by authority of the Secretary of Agriculture, for further downward adjustment if government purchases exceed the 8 billion pounds of milk equivalent. The element of supply and demand work at its fullest under such a program, equally for all. It guarantees great stability in production, consumption and prices of dairy products, both for producer and consumer.

The Milk Diversion Program--

This program was one of the poorest measures ever taken to correct the over supply of milk. If we speak about regionalism, this was it! The Northeast paid in about 160 million, while it only received 50 million in diversion payments. Farmers here in the Northeast were paying 110 million to other parts in the country, while we were experiencing a shortage of milk.

But besides that, paying someone for not producing is the same as unemployment in any other sector of our economy. It is just another form of farmers on welfare. It has no incentive for progress and all our research and know how on being productive are laid idle and are a deadly loss in competing with our products in the world market. Any country that pays its people for not producing is undermining the health of its economy and is doomed for trouble later on.

So please, never anymore paid diversion plan.

The School Lunch Program--

I regret the poor regulations of the U.S.D.A. that says, only low fat, skim milk or buttermilk can be used.

Low fat and skim milk have no taste and make our school childrem revert to soft drinks, which is a loss for our dairy industry and above all a loss of good health for our school children.

I admire the work of our National Dairy promotion and hope we can change our U.S.D.A.'s regulations so our children can have again, the opportunity of drinking fresh whole milk.

Investments in Farms as Tax Shelters--

We have seen, in the last few years, a lot of money being taken away as tax revenue from our government and invested in farms, especially in dairy farms on the east coast. The object of the investors is many times not to make a profit or even lose money on their investment. I, as a dairy farmer, have to make a profit to stay in business and cannot compete with these outside investments. They further ruin our family farms and markets. Perhaps our Congress can do something to keep these outlandish investments away from our farms in its new tax reform.

Thank you.

TESTIMONY

presented by David Fishel

My name is David Fishel, my wife and I operate a dairy farm in Saint Lawrence County near Ogdensburg.

I would like to thank Congressman Coehlo and the Livestock, Dairy and Poultry Subcommittee for bringing the hearings to New York State, and express a few of my views concernings provisions I feel should be included in the 1985 Farm Bill Legislation.

We are at a critical stage in American agriculture and the major questions to be answered are the following four.

1. How to insure a healthy agriculture and presurve the family farm.
2. How to reduce government expenditures on agricultural programs.
3. How to insure an adequate and quality food supply for our own consuming public
4. How to meet the needs of and compete with the world export market demands.

I feel that one bill before the Senate and House of Representatives provides solutions to these and other questions.

One of the most attractive concepts of S.908 and HR 1965 is it would allow for the move toward a more "market-oriented" agriculture. The basis for our entire economy is to let supply and demand dictate the availability and prices of commodities.... agriculture should be no different. We do however need a sort of safety clause of net if you will to help farmers over the transition and away from supply imbalances created by previous government farm programs.

A dairy support level of 90% of the 3 year average and price adjustments with changes in government purchases to correctly signal dairymen of the market conditions would accomplish this goal and yet maintain a healthy agricultural base, treating all dairymen nation wide with equity.

The provisions in H. 1965 that call for an export bonus incentive could help to increase sales of US grain exports thus reducing surpluses and save the taxpayer dollars. Recapturing lost export markets would greatly benefit not only U S agriculture by providing more potential for profit but would aid the economy in general by providing a base for a much improved balance of trade.

H.R. 1965 goes hand-in-hand with deficit reduction efforts and fits well within the spending constraints agreed to by the White House. Any and all cuts in the Federal deficit will help American agriculture probably more than any other policy changes because of the impact on the cost of interest.

Provisions to eliminate the farmer-held reserve; loan rates based on average market prices; target prices for wheat and feed grains to freeze at the 1985 levels and after 1987 to be set at 110% of the average market prices and limitations on Deficiency Payments all make this legislation attractive and a necessity for American agriculture.

On a separate but related topic I would like to make a few comments about agricultural credit.

As a farmer who borrows from commercial lenders and pays the going rate of interest on both long term debt and short term operating loans I am very disturbed by the lack of control and descretion used to make money available to farmers who have neither the knowlege nor the desire to be successful in today's technical and economically difficult times. Well managed operations funded by commercial lenders and paying higher interest can not compete in a market place with so called farmers kept in business with low interest loans funded with taxpayer dollars. I must not only compete in the market place with their products but pay the bill for their lack of management ability. Somehow FmHA loans must be tied to some type of progress schedule and a time frame established to encourage FmHA borrowers to shift from FmHA funding to commercial lenders. If a FmHA borrower cannot qualify for a loan from a commercial lender at this time his FmHA loans should be terminated rather than continuing him into a state of nonrecovery, thus costing more taxpayer dollars.

This problem has grown to such proportions and effects all of agriculture and all taxpayers enough I feel it deserves consideration in the development of a new farm package.

All the points I have mentioned here will strengthen U S agriculture, bolster the farm economy, strengthen export markets, and provide quality food at a reasonble price to U S consummers while at the same time attribute to a healthier U S economic climate.

Thank you again for the chance to address this hearing.

Statement of
Beriah Willson
Vernon Center, NY

My name is Beriah Willson. I operate a 650 acre dairy farm at Vernon Center, NY, which is between Syracuse and Utica, in Oneida County.

Dairy farming has been a lifelong occupation for me. I believe my interests are as broad and my information about what's going on in the world as current as most citizens....farm or non-farm. I am a business man and I try to operate my farm as a profit-producing business. I certainly agree that farming can be described as a "way of life", but first and foremost it is a business. Running a grocery store is a "way of life", but the store will soon fold if it isn't operated on sound economic principles.

Farmers have made headlines in recent months because we are in trouble. Some of the trouble is a result of business judgements which turned out to be less than successful. A considerable part of the trouble is the result of things over which we farmers have absolutely no control...the value of the dollar, the importation of subsidized competitive products, run-away interest rates, the monetary policies of the Federal Reserve, the weather, changing political philosophies about agriculture...I could probably name others.

I guess you'd have to say that no matter how you want to assess the blame, the fact is: agriculture's problems are everybody's problems. When I was in high school, I remember being taught that a fellow named John Donne became famous, in part, because he wrote: "Never send to know for whom the bell tolls, it tolls for thee." The American consumer should heed those words.

I'm sure there will be many people today who will read statistics that show how much the dairy support price and purchase program is costing the American taxpayer. You don't need me to burden the record with such data.

I am here today to ask you as members of Congress to use your influence when the 1985 Farm Bill is written to urge moderation. Our industry has made tremendous strides in reducing milk production already. We have cut CCC costs virtually in half. Economic pressures on dairymen are so severe that it is almost inevitable that further reductions will occur.

Certainly, we all know that with the ending of the 15-month diversion program, there will be a temporary upturn in production. Many people, unfamiliar with the financial problems of producing milk, will point to this surge in production as an excuse to write dairy provisions in the Farm Bill that will impose such severe financial burdens on dairymen that production will be forced down...through farm sellouts and bankruptcies...in a very short time. There's no question that a crash program for cutting the support price...or even eliminating support purchases...would have the desired effect.

There's also no question that the long term best interest of the American public does not lie in destroying one of its most important industries.

When I go to the doctor, he preaches moderation in all things.

I believe that applies equally to the way in which Congress deals with dairy farmers.

Here in the Northeast, we put together, many months ago, the 1985 Farm Bill Committee. It is made up of almost all of the dairy co-ops and general farm organizations in the Northeast region.

This committee has unanimously agreed that the farm program that would best serve the public AND the dairy industry should be based on four principles: 1) the support price and support purchase program should continue; 2) the level of the support price should be tied to the rate of CCC purchases...in other words, it should reflect the supply and demand situation; 3) the support price should be based on a new dairy parity or other economic formula that reflects both the cost of production AND the productive efficiency of modern dairy farms; and 4) the national milk promotion program should be continued.

I know these principles are, by now, familiar to all of you. I repeat them only for emphasis. Most of us believe that a dairy program that properly implemented these concepts, taken in conjunction with economic pressures that already exist, will do the job that must be done. All we ask is that Congress have patience. Milk surpluses weren't achieved overnight. They are declining much faster than they were created. Don't be swayed by those who want to force the issue too quickly. THAT road could lead to disaster.

I should comment at this point that here in the Northeast, farmers very generally do not support the concept that a diversion program is needed to provide a means for controlling milk production. We believe that while the diversion program that ended last March 31 contributed to reducing costs of the dairy purchase program, the burden was unequally borne by the Northeast. We paid out some 100 million dollars more in the 50¢ assessment than we earned through diversion payments to producers in this region. We have markets and we do not heavily contribute to CCC costs. We believe the proposal for a diversion program, tied to a penalty program that would put CCC costs directly on dairymen, would be unfair to producers in this part of the country...as well as some other areas.

Farmers are not great readers, but we do keep up with what's happening. As I sat in my kitchen the other night reading about how the Senate and House are planning to cut the cost of CCC dairy purchases to under a billion dollars, I also happened to read another item. It described how the House of Representatives voted NOT to put a cap on Civil Service Entitlements, and how 22,000 federal jobs were added BACK to the Senate budget, along with $75 billion more in non-defense social spending over three years.

I'm not well enough informed to say whether or not all of this multi billion dollar spending is justified....but I doubt it very much. It sounds rather like buttering the bread in Washington while telling the butter producers to kill their cows and eat grass themselves.

We dairy farmers get particularly angry when we can't even get Congress to legally identify casein as a dairy food...which it is...instead of a chemical so that we can get some reasonable limitations imposed on casein imports.... most of which are subsidized. And we really don't want to hear all of the easy arguments about import controls creating international trade wars. Those trade wars are raging already...and as usual, Uncle Sam, is trying to set a good example at the expense of his own people.

American dairy farmers are supportive of efforts to cut the budget and reduce the deficit. We are not asking to be exempted from participating, painful as it may be. We ask that the program be reasonable, humane, and be allowed to proceed at a pace which will not capsize the boat while we're trimming the sails.

Thank you.

Statement by Bert E. Morse, Master
of the New York State Grange
before the Dairy and Poultry Sub-committee
of the House Agriculture Committee, [illegible]

The New York State Grange is a rural organization of [illegible] members, located in 300-plus communities across this State. Policy is made by introducing into the local Grange unit, a resolution dealing with a specific issue or problem. If the majority believe in its need for address, then it is passed and sent to the County unit of the Grange, whereupon full discussion again takes place. If the issue is of State and/or National import, the resolution is forwarded to the State Grange, which is a delegate body. Local and County units of the Grange are the membership units. At the State Session, resolutions are assigned to Committee for full study again, and acted upon. If the action is favorable, the resolution becomes State policy; and if of National concern, it is sent to the National Session of Grange. Thus you see that the Grange is truly a democratic organization and of grass-roots origin. Today I serve as the elected leader of the State Grange, and also as an officer in the National Grange.

In the New York State Grange testimony before the House of Representatives Committee on Agriculture, at a hearing held May [illegible], [illegible] in Syracuse, N.Y., we strongly emphasized the following:

1. The need for a BALANCED BUDGET and reduced federal spending. This is closely related to the value of the dollar and had a direct bearing on foreign trade and balance-of-payments.

2. A well-planned and executed program to bring the trade deficit back into normal relationship.

3. An aggressive Foreign Trade Policy to enable American farm produce to reach the world markets.

4. The elimination of unfair foreign competition due to policies of other governments.

5. A strong domestic promotion program, financed by the industry itself, (i.e. the current Dairy Promotion Program) to increase home markets, make the consumer aware of nutritional value, and the wise use of spending dollars for food.

We will (for the sake of time) say, these objectives still remain MOST viable. Each member of the New York State Congressional delegation received a detailed outline of these goals. Now I will turn to other concerns that you may understand that if a problem is not dealt with, fully and directly, the "spin-off's" are numerous and serious.

As of June 14, 1985, in making decisions on proposals for the 1985 Farm Bill, frequently a quorum was not present. It seems that "marking time" is taking place until the Conference on Budget Deficit Reduction reaches agreement on the amount of money available for farm programs in 1986 and beyond. This is no time to play politics!

The House of Representatives sub-committees have reached agreement on several titles of the new farm bill, except in grains. This is a major part. They also ask: "Is it within the budget?"

The Dairy Committee of the New York State Grange has long asked for an address to the Casein Imports issue. These imports have a serious impact on the domestic dairy program, and with the dairy support program now in force, it costs the Federal government--therefore taxpayers -- considerable sums of money. Imitation products displace genuine dairy products, forcing those products to be sold to the government instead of the consumer.

Previously I referred to "spin-off" consequences. Here is an example:

> If casein, imported from countries known to be infected with hoof-and-mouth disease, was accidentally fed to livestock, it could cause an epidemic that would cost both livestock producers and consumers millions if not billions of dollars.

The Grange supports HR-1629, and urges your committee to actively seek the passage of this proposed legislation in which quota levels would be set at 50% of the last five years' average imports.

One additional request concerning the Dairy Industry:

> Federal Marketing Orders must be maintained to insure the orderly marketing of milk.

These requests need not cost the taxpayers any tax dollars--Again, this is an example of agriculture willing to return the industry to market balance and reducing the Federal budget.

AN EFFICIENT TRANSPORTATION SYSTEM must be maintained. Cargo preference performs a dis-service to agriculture. Again, at no cost to the government, a decision made to exempt agricultural products from this restrictive measure would add considerably to the competiveness of U.S. Food products to foreign markets. On June 19, the Senate Commerce Committee voted by the narrow margin of 9-7, against S-721, which had previously been approved by the Senate Agriculture Committee, 16-0. The Administration endorsed the legislative effort to overturn the Court's adverse ruling.

Maintenance of an efficient, economical rail system should be a top priority. The proposed sale of the ConRail System to Norfolk Southern needs careful scruitiny. Generally, competition strengthens efficiency, but let's not destroy the rail system by encouraging over-competition or by granting a monopoly to one system which the proposed sale could do.

THE FARM CREDIT SYSTEM is in trouble. For example: the Spokane District needs help from sister banks. The total system is sound - but a way of interchanging resources would prevent the problem which the Spokane District faces. Present loss-sharing agreements are too inflexible to function properly. Revised agreements are needed. Also, there seems to be a lack of leadership. The F.C.A. lacks authority to overcome resistance by many boards of directors.

We follow with interest the sub-committee mark-up of the dairy portion of the 1985 FARM BILL:

a) Dairy Price Indexing: acceptable.

b) 3.5¢ deduction for research may be needed - but strong support is needed for sufficient promotion fund.

c) We question the proposal in adjusting freight differential from a low of 0¢ to a maximum of $1.64. This is projected to cause an increase in production in the high rate areas and could mean 2,000,000,000 pounds more milk...all of which would have to be purchased by the government. Has this cost been included in the estimated cost of 40¢/cwt, or will this be an additional 17¢/cwt?

d) The proposal by Congressman Jeffords is innovative, to say the least... ...accepting bids for a farmer to leave the dairy business, and the farm can produce no milk for five years! History has shown these programs leave much to be desired in the form of positive results.

e) A Meat promotion program is needed; and again, this would be an industry-financed program.

Thank you. We appreciate the opportunity to share.
If we work together, solutions can be found.

Bert S. Morse, Master
New York State Grange

Teamsters Local Union No. 506

132 Genesee Street, Auburn, New York 13021
Telephone (315) 253-8411

Affiliations
International Brotherhood of Teamsters
Eastern Conference of Teamsters
Teamsters Joint Council No. 18

PAUL E. BUSH
President

CHARLES DOTY
Secretary-Treasurer

STATEMENT OF MR. PAUL BUSH

PRESIDENT OF TEAMSTERS LOCAL UNION # 506

Mr. Chairman and Members of the House Subcommittee on Livestock, Dairy and Poultry, I am Paul Bush, President of Teamsters Local Union #506 and would like to welcome the Committee to our city and thank you for taking the time in coming to Auburn to hear directly our concerns about proposed legislation and the affect on each of us. Mr. Chairman, I would like to take this opportunity to express the appreciation and the thanks of the members of Teamsters Local Union #506 to Congressman Frank Horton for his help in arranging this visit by your Committee to our community. His leadership in this matter and others of interest to this community have been a great help to working Americans everywhere.

Mr. Chairman, my message will be brief and to the point. As an elected officer of a labor union, my first responsibility is to insure the protection of the jobs of those working men and women. I am here today on behalf of Teamsters Local 506 and for the more than 4,000 Teamster members and for our other Local Unions involved in the production, processing and delivery of Dairy products in Upstate New York.

Our Teamster members are employed by over 40 dairy companies throughout Upstate New York. Also, Mr. Chairman, additional tens of thousands of Teamsters are employed in the Dairy and farm industry throughout this country. These working Americans produce and process fresh and wholesome farm and dairy products for American consumers throughout this nation and for export for the world market. Our Upstate Teamsters have produced, processed, and delivered milk, cheese, yogurt, butter and other milk products for decades. Teamsters, in New York and the country represent a vital link in the Dairy chain, i.e., production and delivery to market.

These Teamsters, like all Americans, are concerned about the general welfare of the American economy, but, in particular, they are vitally concerned with any legislation which may radically alter the dairy industry. Shortly, Mr. Chairman, this Committee and your Senate counterparts will begin consideration of various bills concerning overall agricultural policy and the relationship of the Dairy Industry to that policy. Your decisions will affect the Dairy Industry in this state and the nation. Our message, Mr. Chairman, and members of this Committee is when you outline the future of the American Agricultural Policy, don't forget the working Teamster who processes cheese in Skaneateles Falls, or the Teamster milk man who delivers milk in Manhattan or the Teamster cannery worker in California. Sudden or abrupt changes in established Federal Programs or Policies will not only affect the long range plans of farmers, but also the plans and profits of companies that invest millions of dollars in plant and machinery to process and distribute the dairy and farm products and the communities in which they are located.

I am sure the Committee is aware that unlike standard manufacturing plants, milk processing plants in Upstate New York are usually located in small rural communities such as Skaneateles Falls, Homer, Campbell, Friendship, Pierrepont Manor and plant cut backs or closings have serious results on these communities and their tax base. Your actions will definitely have an affect on these men and women and their families and their interests must be given equal weight as well as the consumer and the farmer.

One other area of concern to New York Teamsters and to all Teamsters is that of imports. We understand the need for fair trade with our trading partners, but we can't help to want for a trade policy and an agricultural policy which promotes the production, delivery and sale of American farm and dairy products in this country and abroad.

Any further information the Committee or Staff may require will be made available and our Legislative Department in Washington is available and will be addressing specific legislation at future Hearings.

Our object today is to heighten the Committee's awareness that your decisions impact not only on the consumer and farmer but on our 4,000 Teamster members in Upstate New York directly involved in the processing and distribution of dairy and farm products.

Again, thank you Mr. Chairman and members of the Committee for your time and for listening to the concerns of our members.

TESTIMONY OF
DR. RICHARD W. STAMMER
MANAGER OF ECONOMICS & COMMUNICATIONS
AGRI-MARK, INC.

My name is Richard W. Stammer and I reside at 23 Shasta Drive, Londonderry, New Hampshire. I am presently employed as the manager of Economics and Communications for Agri-Mark, Inc., on whose behalf I am testifying today. Agri-Mark is a dairy cooperative with approximately 3,000 members in New England and Eastern New York State. Previous to being employed by Agri-Mark, I was a professor of Agricultural Economics at Rutgers University for eleven years.

The dairy industry today is in a state of turmoil. Producers today are receiving a lower price for their milk than they were four years ago. They are now faced with continually declining prices and the prospect that the price support program, which has served the country well for 35 years, will be terminated. It is true that we have had a large surplus problem in the dairy industry for the past five years and that problem is of concern to all, but especially to dairy farmers themselves. However, we should understand what caused this problem before we consider discarding a program that for 30 years provided price stability to farmers so they can make long-run business decisions and provide consumers with an assured supply of dairy products at a price below what it would be in a free market environment. The dairy price support system did all of this at a very minor cost to taxpayers. Let me read a quote to you from a 1984 U.S.D.A. study mandated by Congress concerning the dairy price support program:

> "The stabilizing influence of price supports contributes positively to economic efficiency. To the extent that dairy farmers or their lenders are risk-averse, the greater the risk associated with a farming enterprise, the greater the return required to induce investment in that enterprise. Moreover, stability facilitates more efficient planning and allows better use of fixed plants and equipment. Hence, to the extent that the price support program reduces price risk and stabilizes output, production is greater at any given average price than it would be without supports."

The surplus problems of the 80's are not due to the fact that the dairy price support program no longer works. Rather, they were due to primarily two factors that resulted in a support price in the late 70's that was too high: 1.) The fact that milk was supported at 80% of parity without taking into account supply and demand factors and, 2.) The fact that the parity index itself did not adequately reflect the costs of producing milk. If price support levels are established in a proper manner, the dairy price support system will continue to be beneficial to both producers and consumers at a minimal cost to taxpayers.

For that reason Agri-Mark supports the following provisions for inclusion in the 1985 Farm Bill:

1.) Maintenance of the dairy price support purchase program by the Federal Government.

2.) Establishing the support price for milk using a dairy specific cost of production formula that includes an adjuster for increases in productivity. Such a formula has been developed by the National Milk Producers Federation and, once we have reached a market balance in production, it should result in a support price that keeps markets in balance because: (a) It starts from a recent base year 1976-78 when markets were in balance; (b) It bases support prices directly on the cost of producing milk; (c) It would lower the support price as productivity increases.

3.) Since no index is perfect, the support price determined by the formula should be adjusted up or down depending on market conditions. Since expected C.C.C. purchases are our best indicator of market balance - National Milk has proposed an adjuster to the formula price that adjusts it up or down on the basis of expected C.C.C. purchases. Since the specific National Milk price adjustments are based on the elasticities of supply and demand, the adjuster in combination with the formula, generates a market oriented clearing price.

4.) The formula with adjuster will work well when we are starting from a point of market balance. However, today we are in a position of market inbalance. Hence, we need some mechanism to move us from our current position to one of market balance in an orderly fashion that will not force some of our more efficient but highly leveraged farms out of business. To do this, we support a standby diversion plan that will have to be implemented when expected purchases exceed 7 billion pounds of milk equivalent, and whose implementation by the Secretary is discretionary if purchases are expected to be between 5 and 7 billion pounds. If the paid diversion program is implemented, it should be funded by a producer assessment. It must be emphasized that, as past history has shown us, the standby paid diversion program is an effective mechanism in holding down government costs during the readjustment period. The alternative is probably a drastic cut in prices that would devastate the industry and lead to considerably higher consumer milk prices in the long run.

5.) We support ammending the Agricultural Marketing Agreement Act to allow payments out of the Federal Order pool to organizations providing marketwide services such as balancing. The entire market, handlers, consumers, and all producers, benefit from such services while, at the present time, only certain groups of producers pay for such services. This creates inequity in the market.

6.) Finally, we support the adjustment in Class I differentials as contained in the Federation proposal since these adjustments are necessary to insure an adequate supply of milk to fluid markets and insure that at least some of the costs of market service payments comes out of the market rather than producers.

The inclusion of these points in the 1985 Farm Bill will make the price responsive to market conditions without discarding the beneficial aspects of the dairy price support program.

STATEMENT ON BEHALF OF
EASTERN MILK PRODUCERS COOPERATIVE ASSOCIATION, INC.

PRESENTED TO THE
LIVESTOCK, DAIRY AND POULTRY SUBCOMMITTEE
OF THE
STANDING COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES

AT ITS
PUBLIC HEARING ON THE 1985 FARM BILL
HELD ON JUNE 28, 1985
AUBURN, NEW YORK

INTRODUCTION

My name is Joseph C. Mathis. I am Manager of Economics and Government Relations for Eastern Milk Producers Cooperative Association, Inc.

This statement is made on behalf of Eastern Milk Producers Cooperative Association, Inc., and the cooperatives affiliated therewith. Eastern _et al_. is a regional cooperative with over 4,000 dairy farmer members residing in a nine state area throughout the Northeastern and Middle Atlantic States. The Association markets its members' milk to handlers regulated by five Federal milk marketing orders. Its sales exceed two billion pounds of milk a year, at a value of nearly one million dollars a day. In addition, the Association's Dairy Products Division distributes a wide range of farm and dairy product items to producers in a twelve state area in this part of the nation.

Eastern plays an active role in the development of agricultural policy positions, particularly as they relate to the dairy industry. The Association is an active member of the National Milk Producers Federation, the oldest and largest farm commodity organization representing dairy cooperative marketing associations owned and operated by dairy farmers throughout the nation.

It is an active member of the Dairy Cooperative Coordinating Committee of the Northeast, comprised of all of the major dairy cooperatives in the Northeast and Middle Atlantic States. Its purpose is to develop coordinated policy positions on Federal order, dairy price support and related issues of importance to the dairy industry on behalf of the member cooperatives and their 20,000 plus members.

The Association also is a member of the "1985 Farm Bill Committee of the Northeast". This organization is composed of nearly all of the dairy farmer cooperatives in the Northeast, Agway, Inc., the northeast regional units of the National Farmers Organization, the Pennsylvania Farmers Union, the Pennsylvania State Grange, and the Vermont Farm Bureau. The New York State and Pennsylvania State Farm Bureaus also have participated in the deliberations of the Committee. Its objective has been to forge a unified policy on the dairy price support and related provisions of the 1985 farm bill. In its broadest aspects, that objective has been achieved in spite of the diverse philosophical tenants underlying the member organizations. Moreover, its position is in concert with nearly all of the elements of the program supported by the National Milk Producers Federation.

THE DAIRY PRICE SUPPORT PROGRAM

My comments today are directed primarily toward what Eastern, et al. believe is the most appropriate program for providing the necessary support and stability of milk prices over the next four years. It is the five-point program of the National Milk Producers Federation, and is designed to restore a reasonable balance between milk supplies and commercial demand without severely impairing the economic viability of the dairy industry in this important dairy region or in the nation as a whole.

Time does not permit a detailed discussion of the Federation's proposal or of its economic ramifications; hence, I will confine my remarks to its basic elements. The Federation already has submitted the details of its proposal to this distinguished subcommittee and its staff will be available to you and your staff throughout the markup and subsequent development stages enacting an omnibus farm bill this year. The five-part dairy program of the Federation, which Eastern fully supports, may be outlined as follows:

1. The 1985 farm bill should provide for a continuation of a purchase-type dairy price support program, not one that converts to a target price/deficiency payment program at some later date, as proposed by the Administration. The purchase program for dairy has been the most effective, least costly, method of stabilizing the prices of any of the major commodity price support programs throughout most of its 38-year history. It has only been in the past few years that excess resources have been drawn into dairying, resulting in a burdensome and costly surplus. Correction of the over-abundance problem was significantly

achieved under the provisions of the 1983 Act and we believe can continue under similar provisions, if enacted, again this year. This is a view held uniformally by the vast majority of the cooperative associations representing dairy farmers, both here in the northeast and in the nation as well. Moreover, we strenuously oppose any action designed to phase out the dairy price support program. Such irresponsable action clearly would be contrary to the public interest.

2. We strongly support the use of a dairy specific pricing index, such as that proposed by the Federation, as the standard for establishing appropriate milk price support levels. We believe that this procedure would be more responsive to changes in the factors affecting milk production and marketings than would a three-year moving average pricing technique.

3. The index adjusted price should be subjected to a supply-demand adjuster related to projected dairy product support purchases by the Commodity Credit Corporation. This adjuster would reduce the applicable support price when CCC purchases are expected to exceed five billion pounds of milk equivalent and would increase the applicable support price when CCC purchases are projected below three billion pounds of milk equivalent. This will assure that the resulting support price is market oriented, which we regard as a basic ingredient for appropriate operation of the program.

4. The program should provide standby authority for a producer-funded paid diversion for implimentation when substantial supply adjustment is necessary. If CCC purchases are expected to fall below five billion pounds, milk equivalent, this element would be

unnecessary and not implemented. The purchase program would be adequate to carry out the support objective under such circumstances. If CCC purchases are projected to be five to seven billion pounds, implementation of this provision would be at the discretion of the Secretary of Agriculture. The assessment would apply to all milk marketed commercially in the United States to cover the cost of the CCC purchases in excess of five billion pounds, milk equivalent, and the diversion payments to participating producers. The CCC would be responsible for the cost of purchasing the first five billion pounds of product. The funding situation would be monitored continually and the assessment reduced or terminated if collections should exceed the producer's share of program costs. If government purchases are estimated to exceed seven billion pounds, milk equivalent, implementation of the assessment/paid diversion would be mandatory. We believe that this feature of the program is the most effective, least costly and least damaging means of restoring and maintaining an appropriate supply-demand balance in the dairy industry in next four years. It would permit the necessary adjustment of needed resources without drastic price cuts that could seriously damage the economic viability of our industry.

6. Finally, adjustments should be made in the Class I (fluid) milk price differentials in 35 of 45 existing Federal milk marketing orders so that they more accurately reflect the cost of transporting milk to those markets from alternative supply sources. The so-called "Class I price surface" prevailing under Federal milk marketing orders has not been changed since

the late 1960's when transportation costs were dramatically lower than those prevailing today. Attempts to correct this disorderly condition through the public hearing process have been unsuccessful; hence, it would be addressed in the 1985 farm bill as an amendment to the Agricultural Marketing Agreement Act of 1937.

FEDERAL MILK MARKETING ORDER PROGRAM

The Federal milk marketing order program has been an integral and indispensable factor in the nation's milk price structure for nearly half a decade. It has assured consumers of an adequate supply of fresh fluid milk and dairy products at reasonable prices throughout its long history. It provides for equitable payments to producers and assures an equitable raw product cost to milk handlers competing with one another in a given marketing area. The continuation of this program is critical to the continued economic viability of the nation's dairy industry. We strenuously oppose any amendments to the enabling 1937 Act which would undermine the effectiveness of this vital program.

In addition to the proposal outlined in point five above, a few other changes in the 1937 Act should be adopted. They include the following:

1. Specific authority should be provided in the 1937 Act for marketwide service payments to compensate those handlers providing balancing and related services that benefit all producers in a given market.

2. Since 1970, the 1937 Act has provided specific, but temporary, authority for seasonal base-excess and "Louisville-type" take-out pay-back pricing provisions in Federal milk orders.

These provisions are designed to provide an incentive to producers to level out their production patterns more in line with market demand patterns. The prevailing miss-match of seasonal milk production and consumption patterns is a serious problem in the northeast and some other regions, resulting in less than optimal marketing efficiency. We urge that the authority for such seasonal pricing plans be made a permanent part of the Act.

3. We also urge that existing authorities be extended on a permanent basis to (a) mandate the call of hearing on a milk marketing order if one-third or more of the producers shipping to handlers regulated by the order apply, in writing, for a hearing on a proposed amendment; and (b) for the Secretary to consider current and anticipated fluid milk needs for a marketing area in making a determination pursuant to the 1937 Act.

SUMMARY

There are, of course, many other necessary elements of public policy on dairy programs (e.g., nutritional assistance programs, PF480, Section 22 import controls, milk protein import restrictions, and the dairy indemnity program), all of which we urge their continuance. Time today, however, does not permit me to address these vital issues.

On behalf of Eastern and its members, I want to sincerely thank this distinguished Subcommittee for taking the time to come to New York State to hear our comments. We hope they will be helpful as you develop the dairy provisions of the 1985 farm bill. The future of our industry and its ability to continue to provide an adequate supply of nutritious dairy foods to the American public at reasonable cost is, indeed, in your hands.

UPSTATE MILK COOPERATIVES, INC.

STATEMENT OF WILLIAM G. ZUBER
PRESIDENT OF UPSTATE MILK COOPERATIVES, INC.
June 28, 1985
Auburn, New York

TO: The Dairy, Livestock, and Poultry Subcommittee
United States House of Representatives

Mr. Chairman, I am William G. Zuber, a dairy farmer from Churchville, New York, just west of Rochester, and President of Upstate Milk Cooperatives, Inc. First of all I would like to thank the Committee and Congressman Horton for inviting us here today to address this very important issue of dairy policy.

Upstate Milk Cooperatives has over 900 members who market over one billion pounds of milk annually. Upstate is a member of National Milk Producers Federation and the Northeast Farm Bill Committee, which you have heard others talk about here today. Our Board of Directors, made up of dairy farmers, have been carefully considering the many different proposals for dairy policy to be included in the 1985 Farm Bill. We have participated in many forums dealing with this issue. Upstate Milk supports the concepts developed by the Northeast Farm Bill Committee, which are also supported by many other organizations and dairy farmers nationwide. These concepts are:

1.) Continuation of the CCC Purchase Program.

2.) Use of a dairy pricing index to establish support prices based on milk production costs adjusted for productivity increases.

3.) Use of a supply-demand adjuster to further adjust the support price up or down based on the anticipated level of CCC purchases.

4.) Continuation of the National Milk Promotion Program.

This program is a market oriented approach, that will still have a stabilizing effect on dairy product prices, to both consumers and producers alike. The program will also reduce future government expenditures, but it must have time to work.

We are opposed to the continued use of diversion or supply management programs. Current projections show that continued diversion programs will not result in any long-term solution to excess supply. Producers who participate in a diversion program are more likely to improve their financial condition and capability of staying in business rather than removing resources from production. Price signals are not likely to be strong enough at the end of a program to encourage diversion participants to get out of dairy farming. Furthermore, supply management would result in higher prices to consumers and lower commercial sales.

Finally, let me emphasize that this program we support, like anything, must have time to work. Dairy farmers on July 1 will face their first real reduction in price since a year and a half ago. We did not achieve these milk surpluses overnight. One of the causes was unclear price signals over the past few years as a result of previous dairy policy. The farm program we support is designed to be realistic and will not encourage excess national production in the future. The industry needs time to adjust in order to reduce unnecessary financial failures of farmers, bankers, suppliers, and processors of dairy products. Again, thank you for your time and effort here today.

WIFE Women Involved In Farm Economics

R.D.#1
Newport, N.Y.3416
June 28, 1985
315-845-8973

Dear Sirs;

I am Anita Maxwell, a dairy farmer from Newport, N.Y. in Herkimer county, and the National Dairy Chairwoman for WIFE, Women Involved in Farm Economics. I was the first woman in the U.S. to be elected a national director of any farm organization and served four terms as the N.Y.-N.J. National Director for the National Farmers Organization.

I appreciate the fact that this distinguished panel is holding hearings in N.Y.S., but I hope our advice does not fall on deaf ears and is heeded. I have a feeling the destiny of our dairy farmers is already plotted and the input from these hearings will be disregarded.

Last year the dairy diversion program had only a band-aid effect on the CCC purchases as most farmers maintained relatively the same number of cows, but cut back on the grain ration to reduce milk production temporarily. At the end of the 15 month period, most farmers increased their grain and thus their milk production, and many have raised extra replacements during that period of time to feed their surplus milk to.

The 50¢ per hundred tax cost our farm almost $10,000 for one year, and a total of almost $13,000 for the 15 month period. For some farmers, the diversion program gave them some extra cash without the bother of producing all that milk or milking extra cows, but for the most part, it was a disaster program not a diversion program. Here in the northeast, we barely produce enough milk to supply our markets, while the glut of the CCC sales come from Minnesota, Wisconsin and California. For most southern states and the northeast where milk was in either a deficit supply, or barely enough, it caused havoc in our orderly milk marketing system and at times our own market administrator had to put into effect a "call order" to have manufacturing plants reduce their usage of milk in order to have more fluid milk for our consumers' needs. In many southern states, the diversion program caused such a shortage of milk, that it had to be transported from Wisconsin, causing a severe rise in consumers' prices at the store.

To make matters worse, the cost of this program was felt most severely by our local cooperatives. They had contracts for fluid milk to fulfill and when the milk supply was decreased in states such as N.Y., the co-ops had to buy milk from neighboring states or other companies at exhorbitant prices. When the co-ops lose money, their members pay for the loss out of their milk checks. Our NEDCO co-op is almost extinct now because of losses--not all due to this diversion program--but most assuredly some losses can be credited to this program. This loss cost my husband and I about $14,000. How much more does the government feel we should lose to compensate for what they feel is a "surplus?"

The only reason I am dwelling on this, is many Congressmen feel the diversion program is a panacea. I realize the Secretary does not approve of it.

The most constructive thing this administration can do do help the dairy situation, is to restrict our imports at least to the amount of our quota, and to label casein a dairy product, rather than a chemical, and have it counted as a dairy import. If casein enters the U.S. as a dairy product, the prospect of making it from U.S. milk would become much more attractive.

This administration for 3 years in a row, has allowed excessive amounts of dairy products to be imported into the U.S. OVER AND ABOVE our normal quota. According to tables from USDA, the U.S. imported over quota, 345% MORE evaporated milk, 150% MORE butter, 36% MORE American cheeses, 19% MORE non-fat dry milk, and 13% MORE Cheddar cheeses. The only answer we get from USDA is there could be a "probable error in reported data." These excesses alone in one year amount to 507.2 million pounds of milk equivalent allowed in OVER our quota. This at a time when U.S. dairy farmers havebeen paying other U.S. farmers NOT to produce milk. This imported milk did not help finance the promotion program, didn't fund the diversion program, but cost the U.S. treasury and the American taxpayers more than $86 million in additional product purchases, amounting to 23% over our quota.

Our National WIFE organization is against the dairy diversion program or anything that would tax farmers. We reccommend the reduction of imports; raising the solids requirements for whole milk, which would give consumers a more nutritious, tastier product; restoring or keeping programs that use dairy products such as WIC, school lunch and milk programs; having our land-grant colleges spend more time, money and effort on marketing what we produce, rather than teaching us to get 30% more milk from our cows with a hormone.

Finally, if after doing the above suggestions, we still have a surplus, we would rather have a farmer controlled supply-management program, such as a base-excess plan, and control the supply of milk ourselves. We also need a revamping of our Federal Milk marketing orders to make them more fair to each segment of our country.

Farmers should be paid a price based on cost of production for the product needed, and we will handle the "surplus" ourselves.

STATEMENT OF LEWELLYN S. MIX, AGWAY INC.

Congressman Coelho, Congressman Horton, Congressman Jeffords, members of the New York State Congressional Delegation, ladies and gentlemen; my name is Dr. Lewellyn S. Mix, and I am the director of farm management R&D for Agway Inc.

Agway Inc., a farm supply and food marketing cooperative owned by 104,000 member-stockholders, serves agriculture in 12 northeastern states: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and Vermont.

Agway's primary objective is to build and maintain a strong, diversified, cooperative business organization to improve the economic well-being of its farmer-members.

Dairy farming is the heart of Northeast agriculture. About 20% of the nation's milk is produced here, as well as other food: 26% of the apples, 14% of the eggs, and many other commodities including potatoes, grapes, mushrooms, cranberries, and substantial amounts of grain.

When farm programs were begun in the United States 50 years ago, over one-quarter of the population lived on farms. Today, that number is just 3%. That is not the only difference in the agricultural sector. Today's agriculture is quite obviously integrated much more fully with the international as well as domestic economies.

Another important change in U.S. agriculture relates to the characteristics of the size of farms. Not suprisingly, farms have been growing in size and value as their relative numbers decrease. In recent years, there has been a trend toward continued growth of the larger farms as well as the number of small "part-time" farms.

We have observed that economic pressure has affected medium-sized full-time farmers, i.e., the typical family farmer. This farmer is frequently young, well-educated, highly-leveraged, and the prototype of many Northeastern farmers.

The changing picture of U.S. agriculture is primarily based on several interactive factors, including technology, financing, and public policy.

Although most public programs were enacted to help family farmers, the benefits are distributed in proportion to volume of output. Intended or not, this policy encourages greater concentration, not less.

During the last 50 years, we have designed programs to achieve the basic policy goals of:

1) Stability, support, and protection of farm income and prices;
2) Maintenance of balanced and adequate supplies of food and fibers; and
3) The orderly marketing and distribution of farm products.

The primary tools used to accomplish these goals have been some combination of price and income supports, along with supply controls and adjustments.

In recent years, this approach has resulted in:

1) Sharp reduction in U.S. production, which has idled

resources all the way from the farm through the agribusiness community;

2) Increased government cost of the farm program;

3) Increased production on the part of foreign competitiors; and

4) Loss in the U.S. share of world markets.

The performance of our farm program in the world market arena has pointed out the need to add another policy objective to those already mentioned: "Assure that U.S. agriculture is competitive in the world market."

U.S. agriculture should not be pushed out of the international market.

The Congress faces a basic choice between two conflicting objectives: either stabilization around average market prices or an effort to raise farm incomes above market levels.

Northeast, A Major Milk Producing Region

The northeastern region has 35,000 commercial dairy farms with 2.2 million dairy cows which produce about 27.1 billion pounds of milk or 20.4 percent of the nation's milk supply. Two of the nation's top five dairy states, namely New York and Pennsylvania, rank third and fifth, respectively, in milk production. The gross value of milk marketed from the eleven northeastern states last year was over $3.8 billon, comprising almost sixty percent of the agricultural income of the region.

Investment High, Returns Low

Dairymen have about $5,500 invested in their business for each cow they own or an average of about $350,000 per farm. Northeastern dairymen have debt loads averaging about $2,000 per cow. Debt service alone averages over $350 per cow per year, which leaves little or no profit potential. Farm business record summaries indicate dairy farmers earned less than 3% on assets and less than 0.5% on equity in 1983.

Looking To The Future

Dairymen in the region generally recognize that national milk production of 137.4 billion pounds during the 1983-84 marketing year exceeded demand by nearly 7.6 percent. CCC purchases of 10.4 billion pounds of milk equivalent is excessive and must be reduced to 5 billion pounds or less. With the announced support price of $11.60 per hundredweight on July 1, 1985, it is hoped that this price will help move us toward the goal of a CCC purchase level of 5 billion pounds for fiscal year 1986.

The challenge is to develop a policy which will allow the five billion pound level to be achieved without permanently damaging the nation's ability to produce milk and forcing thousands of dairymen into bankruptcy.

Factors Which Must Be Taken Into Account

Several factors must be taken into account in developing a sound dairy policy:

1) Steadily improving genetic capability, coupled with ongoing advances in feeding and management, are raising

production per cow by 250 pounds or more per year. With the present national herd of almost 11 million cows, this means a potential increase of around 2.75 billion pounds of milk per year or about 11 billion pounds over four years. One million fewer cows than we have today will be required over the next four years.

2) Milk is a highly perishable, seasonally produced, mobile food.

3) The cost of producing milk within any state varies by four dollars or more per hundredweight depending on herd size, pounds sold per cow per year, pounds sold per farm worker per year, capital investment per cow and cost control.

4) The consumption of milk and dairy products is relatively inelastic to price change, but does moderately respond to advertising and promotion.

5) The steady increase in imitation dairy products made from imported casein has displaced the need for over 55 billion pounds of milk equivalent per year.

Dairy Policy Recommendations

Given the above factors, the 1985 Farm Bill should contain the following basic dairy policy:

1) Abandon the present parity formula in favor of the new dairy specific formula.

2) Establish a supply/demand support price adjuster and authorize the Secretary of Agriculture to adjust support price levels for annual CCC purchases above or below five (5) billion pounds.

3) Set a reasonable import quota on casein at about 75 million pounds per year.

4) Continue the WIC and school milk programs for needy people and for children.

5) Increase the exports of dairy products through stronger sales and barter programs.

The dairy industry over-expanded production between 1979 and 1983 in terms of current demand because of rapid advances in production technology, artificially high support prices and over-expansion of credit to marginal producers.

Reducing the incentive to expand through a flexible support price program administered by the Secretary of Agriculture with increased advertising and promotion and with a casein quota is the most equitable and practical approach to bringing supply in line with demand.

This approach should reduce CCC outlays for dairy product purchases to around $1 billion by the end of the 1985-86 marketing year and will provide a clear signal for planning purposes to all producers.

Summary

The Northeast is important agriculturally due to its proximity to markets and its great diversity. The 1985 Farm Bill should not intentionally create benefits or hardship to any region of the country at the expense of any other region.

The food and agricultural policy of the U.S. was forged in a different period. The policy must deal with the realities of the current situation and should consistently address policy goals which are agreed on by Congress and the Administration.

Mr. Chairman, I appreciate the opportunity to present these comments before the House Subcommittee on Livestock, Dairy and Poultry.

OSWEGO COUNTY LEGISLATURE
[illegible]
[illegible]

Comments on the dairy section of the 1985 Farm bill at
Congressional sub committee hearing; June 28, 1985.

Good morning, my name is Ted Jarrett, I'm a dairy farmer and Chairman of the Agriculture and Environment Committee of the Oswego County Legislature. It's a great honor to have the opportunity to address the issue of the 1985 Farm Bill.

Successful farm legislation will have to promote stability in the market:

- so that farms can make the necessary long range plans
- so that consumers can depend on plentiful supplies at reasonable prices
- so that taxpayers are assured of minimal costs.

To accomplish these goals:

a) present support price structures should be maintained. Eleven dollars and sixty cents per hundred weight seems an acceptable base but must be open to adjustment at the discretion of the Secretary of Agriculture to have the flexibility it needs to be a credible [illegible]

b) Seasonal price adjustment programs (Louisville Plan) should be strengthened to help lessen the dependency on CCC purchases. A more serious effort to promote the reduction of peaks and valleys in annual milk production would relieve the pressure to build seasonally unnecessary plants which [illegible] and CCC purchases to survive.

c) Significant regional differences should be recognized and adjusted for, in any federal program.

- production costs
- dependency on dairy (alternate land use)
- use of CCC as a primary market

Finally, but not least, in the ever present and often critical concern over any government programs, with our increasingly non-farm population it is imperative that we augment our efforts to explain the basic scheme of agriculture in America; that the United States does not subsidize the farmers, it subsidizes cheap and plentiful food for all of the people.

Thank you.

The dairy industry, being in the condition that it is at this time with mounting surpluseage, needs to take stock of its present condition and look at itself in comparison to any other industry in a free enterprise system and ask if it compares at all points with an industry with the same basic goals in mind.

All other businesses that are on a sound foundation function by producing a product or providing a service for the consumer or consuming public. Since free enterprise abounds under the capitalistic system that we are blessed with, another element enters into the system; that which we call competition.

Our whole economy functions in and around this concept holding all who are engaged in business in a check and balance system resulting in a constant vigil in the area of quality of product, the fact being that if your product does not maintain a very high standard it becomes very simple for the competition to sell his product.

If we look closely at the dairy industry in comparison to this format of conduct, we fall far short of the mark in many areas. The dairy industry lacks leadership that recognizes the need to follow the format. It is well known the efficiency of the dairy industry in its ability to produce a large volume of product.

Any other industry recognizes the quality of its product, strives to improve it to the point that its true characteristics are developed, meeting and purposely beating any and all competitive products. Then by using the most efficient advertising media possible, makes a presentation of their product to the consumer.

This is the area where the dairy industry is very weak. The development of product and the improvement of it must follow the course of removing or keeping the contaminents out so that the end product will have as high a degree of purity as possible.

If we look at the standard that we have today and apply the format of competitive free enterprise principles, we have a long way to go to bring our product in any standing position in the market place.

The present standard that establishes milk quality has been given by someone or something that has not taken a real sound look at what milk is. On the basis of chemistry alone you cannot have two substances that have different chemical composition and call those substances by the same name.

We need to establish a standard that declares what milk is. In conferring with professional people in the field of Milk Quality, they point to a leucocyte cell count of 300,000 and a standard plate count of 10,000 on bacteria as a standard for milk.

Using their description and declaring this to be the acceptable standard for the secretion from healthy mammary glands, there is a difference of 700,000 leucocyte cells from the present level of acceptance.

This difference declares that any secretion over 300,000 cells has some level of udder infection from very slight to severely infected. The cows udder that is infected ceases to produce a fluid that can or should be described as milk because the infection produces other chemicals that draw away from the characteristics of a pure product.

The adoption of this standard of 300,000 cells and 10,000 plate count for bacteria will go a long way in the development of a product that can meet the products that compete with milk for the consumer's dollars. This is a much more practical approach to a realistic solution of the surplus problem.

The implementatin of this standard is not going to be readily accepted by dairymen who have functioned a long time under the illusive standard; and they are going to find it difficult to accept. There is going to be need for a great deal of education by very persuasive leaders to get it accomplished.

By placing a price differential on milk quality making it realistic in comparison to product value will make each dairyman responsible for his own actions, or the lack of it, in putting forth an effort to get the corruption out of our product.

As an example for a price differential in relation to product value, fluid milk at 300,000 cell count could take up the price of Class 1 milk at present prices. If for example Class 1 milk or first class milk were priced at $14.00 a hundred weight — a price differential of .50 a hundred for each 100,000 increase in leucocyte cell count — puts a price on 1 million cell count milk in the price of $10.50 a hundred weight, when we compare the product value of how much cheese or non-fat dry milk can be manufactured from each of these cell levels.

Likewise with bacteria there should also be an example. It seems that as a suggestion that a .01 a hundred weight differential be computed for every 1000 increment in bacteria count declining from 10,000 on up. Thus a dairyman with 300,000 leucocyte cell count and 10,000 bacteria count would receive 14.00 a hundred weight for his product.

A dairyman with a cell count of 400,000 and a bacteria count of 20,000 would receive 13.50 - .10 or 13.40 for milk at that quality level. Consideration for protein levels need to be given also because of the breed protein factor. This also should be priced accordingly with product values along with maintaining the differential on butterfat. This proposal is aimed directly at the goal of producing the best possible product we can produce.

This coupled with an effective advertising program is of top priority if we are to bring an alternate solution to the present situation in our industry.

Let us turn to a united effort with positive goals; a direction of time proven guidance factors and bring the dairy industry into a more respectable condition.

A standard should standardize, under the present standard it is like having no standard at all. When we have grasped this truth then we will be an industry with the proper tools to guide its future.

Paul (Pete) E. Barron
FARMER

287 Jerry Smith Rd.
Lansing, N.Y. 14882

(607) 533-4328

UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
Washington, D.C. 20233

OFFICE OF THE DIRECTOR

May 29, 1985

Mr. Mario Castillo
Chief of Staff
Committee on Agriculture
Longworth House Office Building - #1301
Washington, D.C. 20515

Dear Mr. Castillo:

I had the attached material specially prepared by the Bureau of the Census' Agriculture Division in view of your Subcommittee's interest in New York dairy farming.

If my office can be of additional assistance to you, please feel free to contact us at 763-5360.

Sincerely,

LEON H. HAMPTON, JR.
Chief, Congressional Liaison Office
Bureau of the Census

Enclosure

cc: Kim Schnoor
Steven Kerr
Charles Hilty
Lillian Fernandez
George Omas
Millard Wyatt

Highlights of New York State Dairy Farming from 1982 Census of Agriculture

- 42,207 farms in New York (S.T.1)
- 17,236 farms had milk cows
- 14,979 farms sold milk
- 14,279 or 34 percent of the total farms were dairy farms with 50 percent or more of their total sales coming from dairy products. (S.T.50)
- 700 other farms sold dairy products but they represented only 2 percent of total sales of all dairy products (S.T.27 and S.T.50)
- New York State ranked third in the nation in milk cow inventory with 875,113 behind Wisconsin and California. (T.29, Volume 2--Ranking of States and Counties, 1982 Census of Agriculture)
- $1.4 billion dairy products sold in 1982 by New York farmers (S.T.11)
- The five leading counties in New York State for milk cow inventory were:

	Number Milk Cows
1. St. Lawrence	47,485
2. Jefferson	43,626
3. Oneida	36,331
4. Wyoming	35,370
5. Washington	33,371

(C.T.11)

- 62 percent of farms with milk cows had 30 to 99 milk cows. (S.T.27)

NEW YORK MILK COWS (S.T.27)

	Farms	Percent	Milk Cows	Percent
Total Inventory	17,236	100.0	875,113	100.0
Farms with				
1-9	2,761	16.0	7,055	0.8
10-29	2,091	12.1	44,977	5.1
30-49	4,899	28.4	190,797	21.8
50-99	5,837	33.9	382,120	43.7
100 or more	1,648	9.6	250,164	28.6

- 1,648 farms had 100 or more milk cows in 1982 as compared to only 1,368 farms having this number in 1978. (S.T.27 and 1978 Volume 1)
- Number of farms with milk cows decreased 7 percent between 1978 and 1982 while the number of cows increased 3 percent. (Highlights table)

- Tenure of dairy farm operators (S.T.50)

  37 percent full owners
  57 percent part owners
  6 percent tenants

- Percent of dairy farms by type of organization (S.T.50)

  82 - Individual or family
  16 - Partnership
  2 - Family held corporation
  Z - Other than family held corporation
  1 - Other--cooperative, estate or trust, institutional, etc.

- 48.2 years average age of dairy farmers as compared to 50.1 for all farmers. (S.T.50)

- 3 percent of operators were females. (S.T.50)

- 19.8 average years on present farm. (S.T.50)

I. The above data is from the 1982 Census of Agriculture for New York, U.S. Department of Commerce, Bureau of the Census

II. Data compiled by Division of Dairy Industry Services, Albany, New York, 12235, August 1984 "List of Plants Manufacturing Dairy Products in New York State 1982"

  - New York in 1983, ranked fourth among all states in the use of milk for manufactured products.

  - 5.9 billion pounds or 52 percent of the total milk products received at New York plants were used in manufacturing of such products as cheese, butter, ice cream, evaporated milk and condensed milk products. New York was a leader in manufacture of these products.

  - 73 New York plants were engaged in the manufacture of dairy products in 1983.

  - 35 plants were classified as large utilizing over 24 million pounds of milk products in manufacturing during 1983. Nearly one-third of these plants are located in the northern or northeastern region of New York.

Z = Less than 1/2 of 1 percent.

THE ASSEMBLY
STATE OF NEW YORK
ALBANY

RICHARD J. KEANE
ASSEMBLYMAN 145TH A.D.
ERIE COUNTY

CHAIRMAN
COMMITTEE ON AGRICULTURE

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Testimony by Richard J. Keane, Chairman
New York State Assembly Committee on Agriculture
U.S. House Subcommittee on Livestock, Dairy and Poultry
Friday, June 28, 1985

Members of the House Subcommittee on Livestock, Dairy and Poultry, I am glad you have taken the time to listen to the concerns of New York in the area of dairy policy. As you are probably aware, the dairy industry comprises the largest segment of agriculture in New York State. Our dairy industry generates a retail value of well over $3.5 billion annually, and provides employment for 60,000 people in the production, processing and distribution of its products to the retail level. The importance of employment and income derived from the dairy industry is particularly great in rural local economies, where dairy production is usually the predominant industry. I am therefore particulary concerned about the dairy provisions of the 1985 Federal Farm Bill and related dairy legislation you are considering in Congress.

Before I mention my specific legislative concerns, let me state what I see as the important factors you should consider in making policy decisions relative to the dairy industry. Firstly, proposed changes in Federal dairy policy come at a time when major structural changes are expected in the industry from the introduction of innovations such as the bovine growth hormone and multiple component pricing. Ultimately the use of the bovine growth hormone is likely to lead to a dramatic reduction in the number of milk cows, higher feed costs, greater milk production, and possibly, lower consumer prices. New York has already seen a significant reduction in the number of dairy farms over the past ten years, and the use of this hormone will probably cause this trend to accelerate.

Secondly, far more so than other businessmen, farmers can be heavily damaged by government policies and changes in the domestic or international economic climate. The Administration in Washington would like us to ignore that fact, and prefer to press the rhetoric of "market economy." When our agricultural exports caused a favorable balance of payments in the 1960's and 70's we praised ourselves as a nation for the ability to produce and feed the world. Now that agricultural products from other nations are displacing our own because their governments provide generous subsidies, should we walk away from the American farmer? While I am not suggesting that the government should support inefficient farmers, and I do realize that the existing support program is extremely costly, those of us who have responsible roles in New York agriculture feel that we can not walk away from farmers either. Don't forget, in New York we are not talking about helping agricultural entrepreneurs or large corporations such as Chrysler or Continental Illinois. Our farmers are generally family operations with net incomes between twelve and fifteen thousand dollars a year.

To my mind, the best approach for the 1985 Federal Farm bill must be a balanced reduction in government spending for farm relief programs, a strong export strategy for our domestic products, and a tougher stance on subsidized imported products. Certainly we can not avoid restructuring in certain sectors of American agriculture. But in formulating federal agricultural policy the prime objectives should be to encourage stable prices, balanced supply levels, and adequate farm income. In addition, changes from present policy should be made gradually so as to avoid adverse impacts.

Within the past three years dairy farmers have not received a price increase for their milk. Meanwhile, the costs of production have increased. The Administration's proposal to eliminate dairy price supports would have a significant effect on the New York dairy industry, since many of our dairy farmers are already working at the break-even point. Dairymen in New York have voiced their oppostion to farmer-assessed diversion programs. Since large surpluses do not exist in New York, any changes to the diversion program should include provisions for regional equity. Since large surpluses are too costly, encourage overproduction, and are contrary to a market orientation, I would suggest that support prices be tied to the level of Community Credit Corporation (CCC) purchases.

Related issues that have a significant impact on our dairy industry are the importation of casein and the growth in sales of imitation cheese products. As you know from my testimony to you last year, I have had an on-going concern about the displacement of domestic milk products stemming from the use of imitation cheeses and other dairy products. New York has a significant Italian cheese industry, which remains at risk from cheaper, subsidized casein based products. While many of us in state government would like to see an expansion in the number of dairy processors in the state, possibly increasing the demand for milk from producers, the importation of casein only serves to increase the purchase of surpluses by the CCC. It should therefore be obvious that a reduction in casein imports is consistent with any attempt to reduce government expenditures for agriculture.

Another way to address this problem is through stricter labeling requirements. People have the right to know that the product they are purchasing contains "fake" cheese, and not "real" cheese. Since the Federal court struck down our state imitation cheese statute we have looked to Congress and the FDA for truth-in-labeling on cheese and imitation cheese products. This type of measure will go a long way in helping consumers recognize the differences in the products they purchase.

While the long range future of New York's dairy industry looks good, dramatic changes in the industry are close at hand. New York is fortunate to have a significant market close at hand, being in proximity to a large population of consumers and with demand starting to increase. Our State Department of Agriculture and Markets has taken important steps to provide long-range planning for agriculture in our state, with the study New York Agriculture 2000. It is apparent that a great potential exists for expanding markets, and employment, for cheese and other dairy products. While we are taking the steps at the state level that are necessary to improve vitality of our dairy industry, the agricultural community in New York still remains vulnerable to the impact of federal farm policies. Such policies should work to provide responsible support for our country's farmers, and at the same time reduce any unnecessary financial burden on the taxpayers.

In your deliberations over the 1985 Farm Bill I therefore urge you to carefully consider the potential impact that this legislation will have on our state's struggling dairy farmers, rural communities and agri-businesses, and our large base of consumers.

STATEMENT OF G. DINEHART LANGDON, COPAKE, NY

Theodore Roosevelt appointed the Country Life Commission in 1909 to find solutions for rural poverty. One solution was the strengthening of co-ops so that farmers might better bargain for a fair price. It has been the guiding lignt for seventy years that the government would help farmers bargain through their co-ops.

Today we have a Secretary of Agriculture who has gone on record as opposing paying cooperatives for market balancing functions under the Federal Orders. (Country Folks, June 10.) We have had major co-ops in the northeast with serious problems; first Dairylea, then Eastern, now NEDCO. Farmers have tended to think that the problem is mismanagement by the co-ops. I do not think that is the case.

What is the case is that there has been an anti - co-op feeling pervasive throughout the government.

The Country Life Commission's solution, a stronger bargaining positon for farmers, is dead. The Agriculture Department has gone on a co-op crippling binge. It has cut the margins which co-ops make, to control co-ops through the marketing orders. My co-op, Agri-Mark, requires members to put in equity. I have about $16,000 invested, yet I do not receive interest or dividends. I have been paying up to 20% interest in recent years and yet I have not received one cent as a return on my investment; the government controls the margins. I am a farmer and not a delegate to any milk marketing co-op; yet, it seems to me my co-op should be able to bargain for operating funds. No; I must pay dues. The co-op assesses its members dues to pay for field staff used in quality control. Why shouldn't the consumer pay for this necessary service? The reason is that the Federal Order does not provide for it, so the co-op must charge the farmer.

If NEDCO is a failure, management must take some blame. But, if the government controls the margins, it too must take some of the blame. What farmers needs is a Square Deal from the Agriculture Department.

We hear a lot about getting government out of Agriculture. In principle I tend to agree. However, to offer a contract to simply get the government out leaves many terms unstated. For instance, will there be a strong co-op to bargain, or will the farmer be left in a take-it-or-leave-it situation. Walter Chapman was a peanut farmer from Smithfield, VA. One year he was quoted prices for peanuts up to 10¢ per pound. Every day the price seemed to go up. He had made up his mind that he would sell when the price got to 11¢. The price never reached 11¢. He was forced to sell at 3¢ per pound. Today farmers are much more sophisticated in marketing grain. The stability is facilitated by a well established market and the availability of storage. I feel that dairy farmers would be in a take-it-or-leave-it situation. Milk must be sold every day. This lack of stability should not only be of concern to the dairy farmer but also extend to the banking and agricultural equipment and supply sectors.

I think a responsible person would conclude that we need marketing orders until we can find a way to do without them. Marketing orders need a new form, however. During the recent diversion program a milk shortage showed up in the southeast. The problem is a weakness of the Federal Order. The transportation differentials need updating. That a milk shortage showed up is the result of the Agriculture Department's policy of not updating differentials. The result has been that Class I milk is priced too low and Class II is priced too high. By not updating transportation differentials the Federal Orders have lost their elasticity of supply. When I started farming in 1963 Class I milk sold for a price 50% higher than Class II. If Class II was $4, Class I was $6, and with a 75% Class I utilization I got paid about $5.50. If utilization dropped to 50% the Blend Price dropped to $5.00, about 9%. Today Class I sells for closer to a 15% premium. If utilization falls it makes little difference in price. Farmers in the northeast are losing the incentive to cater to the fluid market. Conversely, a shortage in the south did not produce more milk.

We in the northeast need a Square Deal from the Agriculture Department. We need an end to the anti - co-op bias and a new dedication to the principles set forth by the Country Life Commission. We need to reorder the Federal Order program. We need an end to the artificially low Class I price and the artificially high Class II price policy. This policy has produced a milk shortage in a country awash with excess milk.

STATEMENT
of
James M. McMahon
Before the
House Agriculture Subcommittee
on Dairy
June 28, 1985
Auburn, New York

My name is Jim McMahon. I own and operate a 250 acre, 130 Holstein dairy farm in Oswego county, New York. I am a graduate of Syracuse University School of Management with a degree in Marketing and I have served as First Deputy Commissioner, for the New York State Department of Agriculture and Markets. Currently, I serve as Commissioner and Vice- Chairman for the Temporary State Commission on Tug Hill, and as Director at Large for Oswego County Cooperative Extension. Today I would like to draw from my experiences as Oswego County Farm Bureau President and active farm owner and manager, to address the present dairy climate and the effects that the 1985 Farm Bill will have on dairymen in my area.

The dairy industry in New York State accounts for over 50% of the cash receipts from agriculture. In 1984 our dairy cows produced 11.4 billion pounds of milk, this ranks us nationally in the production of butter, cheddar cheese, cottage cheese, Italian cheese, ice cream, and of course fluid milk. The Dairy Diversion Program inacted in Washington has had a deep and unsettling effect on New Yorks most important industry. This program has cost New York State Dairy farmers $3.5 million dollars, and transferred a large portion of this money to Midwest farmers pockets. We can no longer afford this kind of regionalism. Just ask my neighbor who lost his farm and the two machinery dealers who have gone out of business in my area, because farmers cash flow has been depleted. You see farming is a capital business, with high demand for cash flow. It's time to declare the unrealistic cheap food policy of the past unworkable, we need a reasonably priced food policy for the future.

It is time to tie dairy price supports to formulas that depend on market prices rather than arbitrary political numbers. The 1985 Farm Bill Committee has recommended "The need to create a new dairy-policy or other economic formula that reflects the present state of the dairy industry in terms of costs and productivity, and establishment of a formula that will authorize the Secretary of Agriculture to move the support price up or down in response to supply-demand as reflected in the annual level of purchases by the CCC."

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

As of June 17, the House Subcommittee approved the National Milk Producers program of funding a dairy research program of 600 million dollars to be financed by farmers over a two year period at 3 1/2 cents per cut.

Dairymen do not know what Coelho's Subcommittee is proposing. How many farmers know what Congress is doing?

Milk coops do not represent farmers. The kind of services farmers are getting from National Milk Producers and Congress is like the service the cow gets from the AI technician.

The NMPF plan if enacted would make the following deducts:

1) Market service payments.
2) 50¢ to finance a diversion program.
3) Unlimited deducts to fund a federal costs for dairy price supports in excess of $800 million.
4) Dairy research as before mentioned. Coelho is fronting for the big coops because these are the big contributors.

There is no single plan that is going to work for every region. Farmers in the N.E. need milk prices that are going to keep them in business. The surplus of milk in west coat and midwest is killing the dairy farmers in the northeast.

I therefore ask you to support the Farm Bureau's farm bill.

Robert G. Monson
Box 257
Mexico, New York 13114

GENERAL FARM BILL OF 1985

(Dairy Program)

FRIDAY, JUNE 28, 1985

House of Representatives,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Binghamton, NY.

The subcommittee met, pursuant to notice, at 2:40 p.m., in the courtroom, Federal Building, Henry and Washington Streets, Binghamton, NY, Hon. Tony Coelho (chairman of the subcommittee) presiding.

Also present: Representative McHugh.

Staff present: Courtney C. Pastrick.

OPENING STATEMENT OF HON. MATTHEW F. McHUGH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. McHugh. As many of you know, Tony Coelho is a Congressman from California, who serves as the chairman of the Livestock, Dairy, and Poultry Subcommittee of the House Agriculture Committee.

We are delighted to have him here because he is a good friend, and I like to show off my New York upstate district. More importantly, for our State and for our agriculture community, he is subcommittee chairman and is here to listen to the concerns which our farmers and others in New York have about pending national legislation which will affect agriculture and, in particular, will affect the dairy industry.

We in New York are proud of our agriculture industry. I find in Congress that many Members of Congress are not aware that New York is a major agricultural State. It is our largest business, and dairy is our largest agricultural component, accounting for about 60 percent of our total agricultural receipts.

It is an important industry in upstate New York, certainly, and in my congressional district. There is a problem nationally in dairy. We have too much milk. It is costing the taxpayers a great deal of money.

We have a national deficit of over $200 billion, and each element in that budget has to absorb a fair share of reduction in order to meet the national goal of deficit reduction.

As Congressman Coelho has said earlier, he has agreed that the dairy components of the farm bill will absorb at least a $500 million reduction, which is a significant contribution to spending restraint at a time when it is necessary. But, it is going to call for some very tough decisions.

His subcommittee has been working for some time on a bill, and it has reported that bill this week. Within the next couple of weeks, the full committee will be meeting. Adjustments can be made in the bill at that time.

So, the hearing today is a very timely one. You can tell me and most especially Congressman Coelho your views on the dairy industry and on the farm bill that is pending in his committee.

We appreciate very much your being here. There are a number of different proposals which have been presented. I am not going to take the time at this point to get into the details on those, but the administration has made a proposal, the Farm Bureau has a proposal, and, of course, there is the bill which is pending now in Mr. Coelho's committee, which you can address, if you wish, during the course of your testimony.

We will be following a format which has been outlined on sheets, which I think most of you have. People have made arrangements to testify in advance. We will, at the conclusion of those prepared statements, ask if anyone who has not had an opportunity and would like to, to speak briefly on any of the relevant issues here today.

We must leave, unfortunately, at 5:30 to catch a plane. So, we are going to try to move through the format as rapidly and as efficiently as we can, and we would appreciate your being as succinct as you possibly can be for that reason.

Again, my thanks to all of you for being here and most especially my thanks to Congressman Coelho for taking time to come to New York. California is a long way off, but he has made a very special effort to hear, understand, appreciate, and reflect in his legislation the concerns which dairy farmers across the country have, including those in upstate New York.

I want to acknowledge the commissioner of New York State's agricultural markets, Commissioner Gerace. He is our top official in agriculture in New York and will be our first witness. He appeared in Auburn this morning and here this afternoon to tell us his views and concerns in agriculture. We are very grateful to him for being here.

Now I would like to turn the hearing over formally to our chairman for this afternoon, the chairman of the dairy subcommittee, Tony Coelho.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Coelho. Thank you, Matt.

I appreciate being invited here, and I want all of you in the dairy industry here to know that Matt has conveyed to me on numerous occasions his concerns about the dairy program, and also his concerns about what we do and how it impacts the Northeast and most specifically New York.

As one who was born and raised on a dairy farm and milked many cows, as I was going through junior high and high school, I think I have a little bit of knowledge about the dairy industry, but, most importantly, I have a special concern, an affinity, toward the dairy industry.

We have a large industry in California. Most of my farmers in my district are small dairy farmers. Most of them are either of Dutch background or of Portuguese background. I happen to be Portuguese.

So, we have a closeness that you may not realize. My congressional district is primarily agriculture. We have 220 different agricultural commodities, and, so, we are extremely diversified, and we want to make sure, in my area, that the Federal Government is not hurting us, but is, to a great extent, staying out of our way.

We recognize at times that you must have the Government involvement, but as little impact as possible is nice, and I am sure most of you agree with that here as well.

So, we would like to start today's hearing, and I will be making some comments as we move along. I would like to do, at some point, maybe I ought to do it now, is to explain what we are doing in the subcommittee in general terms, and how it impacts you.

First off, as Matt has said, we have agreed to reduce the cost of the dairy program to the taxpayers by $500 million. The current costs are $1.7 billion. That means we will cap it legislatively at $1.2, meaning that any cost over $1.2 million, $1 billion, any costs over $1.2 billion will have to be paid for by the dairy farmers themselves.

That will be a legal cap, and we will not be able to exceed it for the next 5 years. And under the program that we have come up with, we are providing for a projection of the dairy farmer's price supports at about $11.60 per hundredweight. As most of you know, the administration's proposal would call for a price support reduction to $9.60.

Most of you in the dairy business would tell me, as most of you have, that we would go bankrupt with that type of price support.

Second, the administration would like to do away with the price support system. Most of you tell me that we cannot do away with the price support system.

So, we have maintained the price support system and with the budget restraints, in order to get it down to below $1.2 billion, we have had to come up with a diversion program, which I know you do not support. I should tell you rather quickly neither do I.

But, in order to get to the figure of $1.2 or less, I do not know of any other way to do it. The American Farm Bureau Program costs about $1.6 billion in the first year of its program. So, it is too expensive.

The other proposals that have been considered are also too expensive. So, if somebody can come up with something that is less than $1.2 that does not have a diversion program, I would love you for it. I need it and quickly present it to me because we are going to start on a bill a week from Tuesday. So, come forward quickly.

But, that is what we are dealing with. So, we recognize that in order to have some type of cuts in surpluses, that it is necessary to eliminate cows. I said earlier that what we are trying to do is to eliminate cows and not eliminate farmers.

I think that the worse thing I can do is come up with something that would provide for bankruptcy of dairy farmers. I want to see as much as possible that we stay away from that, and, so, what we also did was to provide for a 100 percent buy out for those dairy farmers that want to get out of the dairy business, and do so gracefully. We do provide for that in the legislation.

Second, we provide for a program whereby the cattle and the pork producers would not be adversely impacted in that we say that those red meat cattle that are taken out of the market would be purchased by the Department of Agriculture and used for the school lunch, needy family, and armed services programs.

Consequently, we would not be transferring the problem from dairy to cattle and hogs. I think that is important. We provide, of course, as you know, for research and promotion programs because that is the future, and that is what we have to have for the dairy industry.

So, those are the general outlines of a proposal. We would be happy to start hearing from people in regard to that, or any other idea that they have. Your input is necessary, particularly in the next few weeks, as put together a final bill.

Our first witness, as Matt indicated, is the commissioner of agriculture for the State of New York, Joe Gerace, and, Joe, we appreciate your testifying this afternoon.

STATEMENT OF JOSEPH GERACE, COMMISSIONER, NEW YORK STATE DEPARTMENT OF AGRICULTURE AND MARKETS

Mr. Gerace. I am Joseph Gerace, and I am commissioner of the New York State Department of Agriculture and Markets.

Thank you very much, Chairman Coelho, and Congressman McHugh, on behalf of Gov. Mario Cuomo and the agricultural community of New York, I want to welcome you and your staff to New York. Thank you for holding hearings in New York State, in Auburn this morning and Binghamton this afternoon and for helping us put the spotlight on New York agriculture.

I know that you realize that your work, as you hold these hearings and decide legislation, as you deliberate the fate of the farmers of New York, and of the Nation, is of special importance this year. I cannot overstate the hardships that the agricultural community has faced in the last few years, including, of course, this one, nor could I overstate the economic dangers that now face our farmers.

You know from having heard statements this morning that agriculture is a major industry in New York. There is nearly $3 billion in annual farm receipts. More than 48,000 farmers farm on more than 9 million acres of land, and produce an impressive variety of products. Our farms employ about 100,000 people, and 99 percent of New York farms are owned and operated by farm families.

There is more. New York's agriculture and food industries combined are a $10 billion industry, employing 500,000 people. There is no community in the State of New York untouched by farming and the food industry.

Dairy farming is the sector of New York's agricultural industry most affected by the Federal farm bill. As you know, New York ranks third in the Nation in dairy farming. We produce 11.5 billion pounds of milk per year, with an annual farm value of $1.6 billion.

In 1983, New York produced 8.3 percent of the Nation's milk. But, as you know, the past few years have not been good ones for our farmers. The New York Crop Reporting Service, of my department, has just concluded a survey of New York farm finances. In fact, we have not really made it public, and this is about the first public snapshop of it. Let me give you a snapshot of the current financial profile of New York farmers.

This is disheartening in some respects. About one in five of New York's dairy farmers report a debt asset ratio of between 40 and 70 percent, and another 8 percent report a debt-asset ratio of more than 70 percent. As you know, farm operations with a debt asset ratio above 40 percent are generally considered to be under financial stress.

Most troublesome are the findings that the groups in the survey with the highest debt-to-asset ratios are young farmers, under the age of 35, especially dairy farmers. If you think about this for a moment, these are the very groups that we are looking to for the future and the foundation of our dairy industry.

Most alarming is the finding that 36 percent of the farmers under 35, and 41 percent of the farmers between 35 and 44 are seriously thinking of getting out of farming due to their financial situation. Nearly 3 out of 10 of all farmers in the survey are thinking of getting out, and, as I mentioned to you earlier, the irony is that we had a milk shortage in New York State this past spring, and we think that we are going to face another one this fall.

So, something is terribly wrong, and it is more and more clear throughout the Nation that economic damage to farmers does damage to us all.

If our family farms are damaged, think of the terrible effect on the entire community-at-large. But, if, by working together, we can build and stabilize farm income, think of the powerful benefits for the entire community.

So as you consider this year's farm bill, I urge you and the other Members of Congress to consider it not just as a bill for farmers, but as an economic development bill for each and every community within our Nation.

I would like to just turn to the impact of the Federal dairy program on New York. Let me turn to some details. The farm price of milk in New York has been flat to declining slightly since 1981. The Federal order II blend price was $13.39 in 1981, and $13.03 in 1984. The actual price to the farmer was lower due to the 50-cent and $1 assessments of 1983 and 1984. The estimate for 1985 declines to $12.79.

In the meantime, the index of prices paid by farmers increased by 12 percent from January 1981 to December 1984. Higher farm costs and lower prices for milk that have squeezed many dairy farmers nearly to the breaking point.

Under the 1983 Dairy Diversion Assessment Program, the New York dairy farmers paid $75 million in assessments and will have received $38 million in diversion payments. About $37 million flowed out of the pockets of New York farmers to pay dairy producers in other parts of the country to cut back their output.

The Dairy Diversion Assessment Program obviously had an impact that differed significantly from region to region.

During this time, the number of New York dairy farms has declined by estimates ranging from 400 to 700 and Federal Order II Milk Market Administrator invoked the call provision to assure an adequate supply of fluid milk in our region. Some of our cheesemakers, this is the other irony, some of our cheesemakers producing for the commercial market had to curtail operations earlier this year because they were unable to obtain adequate supplies for production needs.

The outlook is not good. The Reagan administration dairy proposal would make further price support reductions over the next 2 years, end the dairy support purchase program on October 1, 1987, and institute a weak target price program providing inadequate support for the industry.

I would like to make some dairy recommendations for a long-term Federal Dairy Program:

The 1985 farm bill should provide for a long-term Dairy Price Support Program, assuring dairy farm families of a stable price for milk. CCC purchases should be continued, but modified so that milk support price adjustments can avoid major CCC surplus purchases.

Supply-demand adjustments should automatically relate the support price level to the volume of Government purchases, allowing the support price to decline when CCC purchases increase and to increase when CCC purchases decline. The implementation of a supply-demand adjustment program must be gradual.

I support the consideration that is being given to increasing the class I price differential. This will help maintain production capacity near population centers.

Dairy import quotas should be continued and consideration be given to including casein under the section 22 quota.

Funding for the USDA Special Milk Program should be restored and continued. This program does two things and does them well. It provides nutritional benefit to needy children in schools and is an important outlet for substantial quantities of fluid milk.

Congress should require Food and Drug Administration to revise their present standards for imitation cheese products. The present nutritionally equivalent standard is unfair to the natural cheese industry, deceives consumers, and has helped producers of imitation cheese gain a large part of the cheese market.

The producer-funded National Dairy Promotion Program should be continued through a national referendum vote. We would also encourage, as I know you are encouraging, increased market development and product development programs for dairy products. Aggressive Federal programs would offer our producers new opportunities for their products.

We must begin to understand more clearly the impact of the small and the midsized full-time commercial farms on local economies. And we must find some mechanism to support them in the face of farm business cycles like the one we are in now. Driving farmers out of business does tangible damage to rural and urban economies. I am convinced we must find a way to maintain farm family income during the downside of the cycle, so that they will be able to contribute to our economy on the up side.

As a footnote and an aside, you show me a county in New York State that has a higher than average unemployment rate and 9 times out of 10, I will show you an agriculturally based county.

Current agricultural research and development will have dramatic effects on dairy farming. The risk is that the commercial benefits of such research will be available only to the larger operations, thus unfairly squeezing out the smaller operations and leading to concentrated farm ownership. The results of agricultural research and development must be equitably available to all farmers, regardless of the size of their farm. Increased efforts must be made to help small and midsized commercial farms adopt new technologies before it is too late.

The impact of Federal tax and budget policies should be looked at and we are deeply concerned about the Reagan administration's proposal to eliminate the deductibility of State and local taxes from the Federal income tax. This would leave fewer dollars in New York and other States for the development of agriculture and for enabling farmers and agribusinesses to compete in national and world markets.

Many people, a growing number, believe that Federal tax policy encourages shelters for off-farm income through farm losses, the concentration of farm ownership, and production on marginal land. Farming the Tax Code has become a popular tax shelter for money earned far from the farm.

Inconsistent Federal policies encourage investors to raise irrigated crops on fragile land, while, at the same time, paying farmers to reduce production capacity. Incentives to farm and irrigate fragile lands should be ended.

Midsized farms are most threatened by such trends, yet it is precisely these farms that anchor many of our rural communities.

Agriculture is vulnerable to international economic events and national economic policy. Record Federal deficits that you talked about have given farmers dramatically increased interest payments. The overvalued dollar has reduced agricultural exports and increased agricultural imports. Farm income will not return to reasonable levels for all farmers until the Federal deficit is reduced, and interest rates stabilize at lower levels.

I would like to, in closing, address the need for long-term farm policy. Governor Cuomo recently released a major study of New York agriculture entitled "New York Agriculture 2000." Other States are engaged in similar long-range planning. My department just released the first strategic marketing plan for New York's agribusiness community. There is substantial bipartisan support for these efforts.

The time has come to end our short-term approach to national farm policy. Long-term policies will allow our farmers and agribusinesses to plan for the future.

We need a long-term national approach, not only for our own security, but for the stability and peace of the world.

The American public now realizes more than ever the role of agriculture in our national life. This is a good time and a good season to make a fresh start.

When the social security system was in crisis, there was an approach on a bipartisan basis to wrestle with the issues and develop short- and long-term solutions.

Agriculture is in crisis. This is a good time and a good season to make a fresh start.

Thank you.

Mr. **Coelho**. Thank you very much, Joe.

Mr. McHugh.

Mr. **McHugh**. Thank you very much, Joe. We appreciate your being here.

I just have one question. You may want to think about this. Given the budget goal that we have set for ourselves, the reduction of $500 million in this program, and assuming that we have two essential tools available to us, reducing the price support level or a higher price support level than would otherwise be possible in light of our budget goals, but coupled with the diversion plan, such as Congressman Coelho has mentioned, which would be your preference?

As I understand it, the Congressional Research Service has estimated that if we are going to meet our budget goals by using cuts in the price support level only, we would have to set the price support level at about $10.45.

The alternative to that would be something like the plan that Congressman Coelho has mentioned. From a New York perspective, do you have a judgment as to which of these two approaches, assuming we have to choose between them, would be better or less harmful?

Mr. **Gerace**. You have always been known to ask the toughest questions, and also to make the best decisions, but our feeling is that by having the supply-demand adjustor approach that Congressman Coelho has in his bill, and has been suggested in the philosophy of the Farm Bureau bill, that that would help bring the cost down.

In the meantime, here, in New York, if we could be given some time to adjust, we can, and the industry can, through over-order pricing systems and other mechanisms, be able to adjust on a regional basis and stay alive.

We just feel that it would be very difficult for our farmers if the $11.60 is a breaking point, then we have a 50-cent assessment on top of that, for us to be able to recoup, and, then, the other statement I would like to make on this point is, frankly, the farmers have made the first contribution toward reducing the deficit through the assessment program, and it just seems like agriculture is being asked to do it again, when the rest of the Nation has not yet bellied up to its responsibility.

So, I have not answered your question directly, except to say that I think a compromise between the two on a short-term basis may be to follow Senator Leahy's recommendation of a kind of freezing of that price support for a time at $11.60, allow us to go out and see what we can do with market development, product development, over-order pricing, and make some adjustments on a grassroots bootstrap level.

Mr. **McHugh**. Thank you very much.

Mr. Coelho. Joe, you said that New York will be having a shortage of fluid milk this fall. I think one of the things that we should look at, and I will do, is seeing whether or not we can do something with regard to the differentials, as to whether or not we can make a change there to protect you in those circumstances.

Based on the hearing this morning, the problems that you went through this spring, I think that they could be alleviated to some extent if we aggressively try to do something.

So, what I will be doing when I get back, working with Matt and others, is let us see if we cannot do something and in the bill that we report out of full committee in a week or so, see if we do not address that in some way.

So, we will be pursuing that, and we may want to work with your office to help us with some details and work with Matt in that regard as well. But, we will be following up on that.

Mr. Gerace. All right.

Mr. Coelho. Thank you very much.

Mr. Gerace. Thank you.

Mr. Coelho. Our next witness will be Mr. Mitzel. If you will come forward. Mr. Eckel, if you will come forward, and Mr. Pardoe, if you will come forward. All three of you will take the stand and we will consider you as a panel and hear your testimony and question you from there.

OK. Mr. Mitzel.

STATEMENT OF RALPH MITZEL, DAIRY FARMER, COCHAIRMAN, DAIRY COMMITTEE, NEW YORK STATE FARM BUREAU, GLENMONT, NY

Mr. Mitzel. My name is Ralph Mitzel. I own and operate a 450-acre 50-cow dairy farm in Erie County, NY.

Currently, I serve as cochairman of the New York Farm Bureau Dairy Committee.

I would like to thank the House Agriculture Subcommittee on Livestock, Dairy, and Poultry for allowing me to comment on the dairy provisions for the 1985 farm bill.

New York's dairy industry comprises 57 percent of the cash receipts from agriculture, New York's largest industry. Our 930,000 cows produced 11.4 billion pounds of milk in 1984, making New York the third largest production State in the United States. In 1983, New York was nationally ranked seventh in butter production, fourth in cheddar cheese production, second in Italian cheese production, first in cream cheese and cottage cheese, and fourth in ice cream production.

New York dairymen are anxiously awaiting the crucial decisions that you, as lawmakers, must make on the 1985 farm bill. Dairy farmers have just completed a 15-month period where long-range plans and decisions, for the most part, have been put on hold.

Without the ability to look to the horizon and determine with reasonable accuracy what the price of milk will be over the next 2 to 5 years, the producers are unable to do the necessary financial planning to remain competitive in the future.

Our industry has been strung along for the last 4 years with Band-Aid attempts to resolve the dairy surplus situation. Not only have these programs failed at correcting the problem, they have also allowed the dairy industry to bleed to the point where major surgery is necessary if it is to be saved.

Production trends for 1985 indicate that any gains in reducing the dairy surplus through the diversion program will be lost to production increases. The diversion program participants are adjusting their production upward in order to maintain cash flow levels necessary to run their businesses. The Dairy Diversion Program served only to delay the inevitable.

Current farm bill dairy proposals demonstrate a recognition by the dairy industry that major changes are necessary to reduce Government expenditures and rebalance the supply and demand.

Farm Bureau members, through their extensive policy development process, voted in support of the continuation of the Dairy Price Support Program, the elimination of parity from determining the support price and tying the price support levels to Government purchases.

They also said no to any producer assessments for the purpose of funding a dairy program. This Farm Bureau policy was used as the foundation for the dairy title in Farm Bureau's farm bill (H.R. 1965/S. 908). Farm Bureau's farm bill is designed to increase producer income by discouraging price-depressing surpluses. The level of Government purchases is the last indicator of whether a support price is too high or too low. The dairy title of H.R. 1965 includes the following provisions:

One, continuation of the Price Support Purchase Program.

Two, determination of the support price using 90 percent of the previous 3 years' average all milk price. This price would be factored in the supply-demand adjuster at the 100-percent bracket.

Three, adjusted support price to be determined by the following supply-demand adjuster, and the graph is attached to my written statement. You can look at it at your leisure.

[The attachment follows Mr. Mitzel's statement.]

Mr. Coehlo. It will be made a part of the official record without any request.

Mr. Mitzel. Four, the Secretary of Agriculture to be provided discretionary authority to adjust the support price—that is 7 billion to 7.99 billion-pound bracket—by not more than 3 percent on April 1, 1986, and for any subsequent 6-month period if the CCC net purchases are estimated to exceed 7.99 billion pounds of milk equivalent during the next 12 months.

Five, the support price and adjusted support price to be adjusted semiannually, October 1 and April 1, to ensure that dairymen are receiving adequate price signals within a reasonable time period.

The Dairy Price Support Program has been an effective tool in balancing supply and demand for most of the 36-year history. The program became ineffective when the Secretary of Agriculture lost his authority to lower the support price in 1979, when Congress fixed price supports at 80 percent of parity.

By determining the support price based on 90 percent of the previous 3 years' average all milk price, then further adjusting it up or down according to the level of Government purchases, we are returning the Dairy Price Support Program to a safety net program rather than the income-enhancing program it has been recently.

Through reaffirmation of the Dairy Price Support Program, Farm Bureau members are saying that the marketplace is the only true indicator of supply and demand. By modifying the program as outlined, dairy farmers will receive the proper signals as to whether they should increase or decrease production. Price will be the incentive.

The program is not oriented toward free market. It does not exist in the dairy industry. Rather, it establishes Government as a safety net that will prevent the drastic fluctuations in price that can be devastating to producers and consumers alike. The price support program will continue to ensure adequate quality supplies of milk and dairy products to consumers at reasonable prices just as it always has.

Farm Bureau's farm bill is fiscally responsive. The dairy title of H.R. 1965 would reduce Government expenditures for dairy to a projected 4-year average of $1.2 billion. A substantial decline from $2 billion spent in 1983 and within the budgetary guidelines accepted by the President. Once the supply demand balance is achieved, the Government expenditures will be reduced even further. The $600 to $700 million range is not unreasonable over time.

Farm Bureau's farm bill facilitates the long-term stability that is so vitally important to our industry. Recent programs have prohibited the industry from planning ahead more than 1 year in advance. Under H.R. 1965, farmers will be able to look ahead and know with reasonable certainty just what the prices are likely to be.

In addition, the bill continues to maintain minimal Government involvement in the dairy industry. Farmer-assessed diversion programs, along with other supply management systems, create more bureaucracy which means more taxpayer expenditures for dairy programs. The track record of the Dairy Price Support Program is clear proof that the Government and private industry can work together in harmony at minimal taxpayer expense.

One cannot look at the bill without recognizing common provisions contained in other farm bill proposals. Continuation of the Dairy Price Support Program and tying the price supports to Government purchases are two ideas that have received broad based support from most all producer groups. In addition, the replacing of parity with an updated economic formula to establish the support price and instituting a standby program for extreme circumstances are ideas supported by other organizations.

Farm Bureau recognizes that a standby program may be necessary, but the program should perform as a standby, not an integral part of the provisions designed to balance supply and demand.

The standby provision contained in H.R. 1965 authorizes the Secretary of Agriculture to lower the support price by not more than 3 percent during any 6-month period if Government purchases are expected to exceed 8 billion pounds of milk equivalent. Such a proposal maintains a continuity with the rest of the program in that it continues to use price as the sole incentive to increase or decrease production. It is a logical extension of the price support program.

Dairy farmer leadership in the Northeast have been working together for the purpose of developing a common position on the dairy provisions of the farm bill for over a year. The 1985 farm bill committee, representing producer groups in New York, Pennsylvania, New Jersey, and Vermont, has taken a position in support of all the provisions contained in the dairy title of H.R. 1965. In addition, the committee does not support any form of farmer-assessed diversion programs. The New York Farm Bureau is proud to be an active participant on this committee.

Current congressional cosponsorship of H.R. 1965 numbers 83. The New York Congressmen Wortley, Horton, Martin, Soloman, and Boehlert, and Senators Moynihan and D'Amato have demonstrated their leadership abilities and concern for New York dairymen by cosponsoring the Farm Bureau farm bill. New York Farm Bureau greatly appreciates their support.

In closing, Farm Bureau is proud of H.R. 1965, because it is a product of an extensive grassroots policy development process. The bill substantially reduces taxpayer dollars into agriculture, allows producers to continue to make their own production decisions based upon accurate market signals, facilitates growth of export markets for wheat and feed grain commodities, and helps to build a foundation for long-term stability in agriculture.

The New York Farm Bureau encourages your support. Thank you.

[The attachment follows:]

CCC Net Purchases (1) bil. lbs.	% of Support Price (2) percent	Estimated Adjusted Support Price, 10/1/85 (3) dol. per cwt.
Less than 3	104	12.46
3.0-3.99	103	12.34
4.0-4.99	102	12.22
5.0-5.99	100	11.98
6.0-6.99	98	11.74
7.0-7.99	96	11.50

(1) Net purchases (total purchases, delivery basis, minus sales for unrestricted use, milk equivalent).

(2) Milk of average milkfat content

(3) Manufacturing grade milk of average milkfat content.

Mr. Coelho. Thank you very much.

Mr. Hardie, why do you not give your statement? Both of these statements were given earlier this morning at the hearing. If you could, Mr. Hardie, give your statement, recognizing that we have heard it once before, we would appreciate it.

Mr. Hardie. I will read fast, and I will skip a few unimportant facts.

Mr. Coelho. OK. You go right ahead.

STATEMENT OF DAVID E. HARDIE, COMMITTEEMAN, DAIRY COMMITTEE, NEW YORK FARM BUREAU

Mr. Hardie. Good afternoon, my name is Skip Hardie. Nice to have you with us, Chairman Coelho and Mr. McHugh, nice seeing you again.

I farm in partnership with my father on a 200-cow dairy farm in Lansing, NY, which is Tompkins County. I serve as committeeman on the New York Farm Bureau Dairy Committee, and my remarks are made on behalf of the New York Farm Bureau.

Delegates at the 1985 American Farm Bureau annual meeting voted "no" to farmer assessments by the Federal Government as part of any future dairy legislation. By doing so, they reaffirmed their belief that the Dairy Price Support Program has the ability to balance milk supply and demand. H.R. 1965 was drafted to implement this policy directive.

There are important reasons why the Farm Bureau's farm bill does not contain provisions for farmer funded supply control programs. I would like to share a few with you this afternoon.

The Farm Bureau membership believes that the price, as conveyed through the Dairy Price Support Program, can control dairy product surpluses. It is a proven program. Between 1949 and 1978, support prices were lowered six times. On each of these occasions, CCC purchases were reduced substantially. Modification of the Dairy Price Support Program as proposed in H.R. 1965 will permit a national dairy program to continue to effectively serve the dairy farmer and the consumer well into the future.

Implementing any sort of farmer assessed program to control production lends itself to be a substantial burden upon all producers. The effective pay price to dairymen will most likely be lower than the program embodied in H.R. 1965. Government expenditures will be less, at the expense of U.S. dairy farmers. During this period of severe economic recession in agriculture, why saddle producers with this extra burden, particularly when another program has already a proven track record?

Once instituted, the diversion program will essentially be a permanent program, we believe. Once dairy farmers participate, they will find it very difficult to leave the program without substantially increasing production levels to meet cash-flow needs. We have just seen this happen here recently. This production readjustment could be substantial enough to require instituting another diversion program. Today's upward production trends, following the last diversion program, illustrate exactly what I am talking about.

A continuation of any form of supply management will institutionalize the use of bases in dairy. The cost of quotas or bases are capitalized into the value of the farm and become a significant economic restriction to farmers wanting to get in or out of dairying. Since these bases increase the cost of producing milk, the support prices are required to ensure farmers receive an adequate return. Consumers ultimately pay the bill for higher milk and dairy products.

Statistics from the recently ended Dairy Diversion Program show that 36 percent of farmers not participating in the program decreased their production. In fact, nonparticipants with marketing declines of 5 percent or more exceeded the number of diversion participants. Obviously, other incentives such as price, brought forth production declines.

The cost of future diversion programs will most likely be greater than the program just ended. Now that dairy farmers have an understanding of how the program works, they probably will be much more inclined to sign up if there is an economic incentive to do so. More diversion program participants mean more cost to the producers. The scenario could easily eat up any producer gains achieved by maintaining artificially high support prices.

From a Northeast perspective, the diversion program cost our dairy farmers approximately $62½ million. In New York State, $1 was lost for every $2 paid as assessments. What we have experienced is a disproportionate flow of farmers' dollars out of the Northeast and Southeast into the Midwest. How can our dairy industry remain competitive if we have to help pay for a program that shifts dollars out of our region into the midwest dairy farmer's pockets?

The Northeast has been an economically viable region for producing milk. The Italian cheese industry has established itself here because of this fact. We serve the largest population center in the country. Northeast dairy farmers can remain competitive in the future, but not if we have to continue to fund other production regions for the purpose of paying them not to produce. The Dairy Price Support Program has treated all regions equitably. Farm bureau believes that the system should remain that way.

No other agricultural commodity sector, except for tobacco, has ever been assessed for producing too much product. The pressure to change to a system of farmer assessments comes from a region that stands to gain economically from such a system. The Northeast is not about to sit idly by and watch this program pass through Congress.

As mentioned in Mr. Mitzel's statement, the New York Farm Bureau has been an active participant on the 1985 farm bill committee. This committee, comprised of representatives from dairy cooperatives and general farm organizations from New York, Pennsylvania, Vermont, and New Jersey, voted not to support a producer assessed diversion program. This position was carried to the National Milk Executive Committee, when Clyde Rutherford, National Milk Executive Committee member and chairman of the 1985 farm bill committee, voted his no to the National Milk Producers' five-point plan. I believe the reason he voted no was because it included the diversion.

The dairy industry has made great strides this year through general agreement on continuing the Dairy Price Support Program, tying price supports to Government purchases and replacing the parity concept with an updated economic formula. With such unified support on these major dairy provisions, why risk losing the whole system over a farmer assessed diversion program? Farm Bureau believes that the dairy provisions contained in H.R. 1965 will do the job of balancing supply and demand in a way that is acceptable to producers and fiscally responsive to taxpayers.

In closing, I would like to make a few comments regarding class I differentials. Even though Farm Bureau supports updating the transportation differentials used in Federal milk order pricing, we have some major concerns in the proposal that calls for change through the legislative procedure.

Under the act of 1937, changes in Federal marketing orders could be accomplished only through a referendum of producers marketing through the order. If the dairy industry supports the legislative route, will it come back to haunt us in the future? Once precedent is established, it would be possible for nondairy farmer groups to launch major campaigns against the Federal order system. In the long run, this initiative could be the demise of Federal orders. Farm Bureau does not want to risk such a threat.

Thank you very much for the opportunity to testify.

Mr. **Coelho.** Thank you very much, Mr. Hardie. Mr. Eckel.

STATEMENT OF KEITH W. ECKEL, PRESIDENT, PENNSYLVANIA FARMERS' ASSOCIATION

Mr. **Eckel.** Chairman Coelho and Congressman McHugh, I, first of all, want to express my appreciation for your coming to the Northeast.

We believe that agriculture is a very vital part of the Northeast and appreciate your time. I know it is a long way from home for you.

My name is Keith Eckel. I am a full-time farmer and along with my brother, Fred, operate a 1,000-acre, dairy and tomato farm in Clarks Summit, PA. I come before you today as the president of the Pennsylvania Farmers' Association. We are a general farm organization composed of 23,000-plus member families, and are affiliated nationally with the American Farm Bureau Federation. Because over half our members are in the dairy business, and because our State ranks fifth in milk production, we have considerable interest in dairy provisions of the 1985 farm bill.

Before I discuss specific recommendations for the 1985 farm bill, I would like to describe the process used by our organization to determine what we believe best for the dairy industry.

Our ideas were not decided by our board of directors, but, rather, evolved through an extensive grassroots policy development process that began during the summer of 1984, and culminated with the voting delegate session at the American Farm Bureau Federation annual meeting this past January.

Pennsylvanians were deeply involved in this process, from start to finish, and we, in Pennsylvania, are confident that our organization's proposal for the Dairy Price Support Program provides the best way to restore balance and prosperity to the dairy industry.

The Pennsylvania Farmers' Association believes the Dairy Price Support Program must be market oriented and must be easy to understand. Only such a program will send clear signals to dairy farmers that support prices will be adjusted if supply and demand is out of balance. Specifically, we recommend:

One, the Government Dairy Products Purchase Program be continued.

Two, the support price be adjusted according to the amount of net Government purchases.

Three, the support price be established at 90 percent of the average all-milk price for the previous 3 years, with adjustments made semiannually.

Four, the Secretary be granted discretionary authority to reduce the support price by not more than 3 percent every 6 months, if purchases exceed 8 billion pounds.

Until recent years, the Government purchase of dairy products has satisfactorily maintained and stabilized the pricing and marketing of milk and dairy products without huge surpluses or costs to the taxpayer. There is no reason to discontinue such a proven system, but modifications are in order to restore the proper role of the program, that of ensuring farmers a price that provides an adequate supply of milk production.

The supply of milk, more specifically the supply of milk as measured by CCC purchases, should determine the price support level. As supplies increase, the price must predictably decrease, and as supplies decrease, the price must predictably increase. These price changes will send a clear message to farmers that production adjustments are necessary.

The policy position of our association has been introduced as legislation in the U.S. House of Representatives by Congressman William Emerson of Missouri. His bill indexes support prices to CCC purchases using 5 to 6 billion pounds of CCC purchased product as an equilibrium point. Production which results in CCC purchases above 6 billion pounds would lower the support price, and CCC purchases below 5 billion pounds would raise the price according to a scale written into the legislation.

This proposal is estimated to cost a modest $4.69 billion over the next 4 years. I have attached a copy of the dairy title of Mr. Emerson's farm bill to my statement. To date, H.R. 1965 has 83 cosponsors in the U.S. House of Representatives, including 6 Pennsylvanians.

Other organizations have put forth dairy proposals that use complicated economic formulas, supply/demand adjusters, standby diversion programs with assessments of producers and adjustments in Federal order class I differentials.

The policy position adopted by our members on the dairy program states:

> We favor a system where the price support level would be automatically adjusted according to the amount of net dairy products purchased by the Federal Government and oppose any assessment of producers by the Federal Government as a part of any future dairy legislation.

In addition, we are concerned that a complex economic formula would not relate market price signals to the support price, and the diversion programs and altered differentials would create regional inequities and exert negative impact on livestock markets.

Present dairy legislation is set to expire September 30 of this year. Congress must take action to formulate a dairy program that restores and maintains a balance between supply and demand while, at the same time, providing a price to dairy farmers that ensures an adequate milk flow.

We believe the most effective way to do this is also one of the simplest and most cost-effective ways—that is to tie the support price directly to CCC purchases. We support the dairy provisions of Congressman Emerson's bill and urge you to do likewise.

At this time, I would like to thank you for the opportunity to present the views of the Pennsylvania Farmers' Association.

[Attachment is held in the committee files.]

Mr. COELHO. Thank you very much.

Mr. Pardoe.

STATEMENT OF ROBERT F. PARDOE, CHAIRMAN, DAIRY COMMITTEE, PENNSYLVANIA STATE GRANGE

Mr. PARDOE. Well, Congressman Coelho and Congressman McHugh, I appreciate very much the opportunity to present a brief statement concerning the farm bill to you.

I am Robert Pardoe, a dairyman from Milton, PA, Northumberland County. I am also chairman of the Dairy Committee of the Pennsylvania State Grange. Milk production from my farm is marketed under Federal Order No. 2.

I would like to offer comments and the policy of the Pennsylvania State Grange adopted in annual session October 23, 1984.

The price received for milk in April and May 1985 is the lowest in the past 5 years, in both order No. 2 and order No. 4. The prices paid for inputs on dairy farms have stayed the same or increased in the same period.

We are aware that milk production in the United States has exceeded the market needs and that a program needs to be developed to better match production with the needs of our market. We are also aware that the uncontrolled inportation of casein used for food displaces part of the market for domestic production. Therefore, casein used for food should have the same quota control as other dairy products.

To the extent that the present price support program enhances production, we agree that the program needs to be modified to lessen the incentive. However, considering the tremendous capital investment and the livelihood of our dairy farm families, we do not think it should be a crash program. Therefore, the Pennsylvania State Grange proposes the following programs:

One, the dairy price support stabilization program has worked well for many years to assure a steady and dependable supply of fresh milk and dairy products to all parts of this country, and this program should be continued, although with a possible updating to:

(a) Create a system for relating the support price to current costs, productivity and other factors that reflect the true state of the art in milk production; and

(b) Tie the support price to a formula that will move it up and down in response to supply-demand or determined by the rate of surplus products purchased by the Commodity Credit Corporation.

Two, the national dairy promotion program should be extended, although only after a referendum of producers.

Three, in dealing with the total dairy package within the farm bill, provisions should be made for setting up some standby system for dealing with a potential surplus problem before it reaches crisis proportions.

Thank you.

Mr. **Coelho.** Thank you very much, Mr. Pardoe.

Mr. McHugh.

Mr. **McHugh.** It is clear from your testimony and certainly from the Farm Bureau representative that you very strongly prefer using only the mechanism of the price support level as opposed to the additional mechanism of a diversion program.

The problem I see is that the estimated cost of your proposal would be about $1.2 billion in the first year. However, I understand that it might cost more than that, perhaps as much as $400 million more than the budget we have to deal with.

That suggests that we would have to lower the price support level to make up that $400 million. Of course, as a practical matter, we have to be concerned about what impact that might have on New York and Pennsylvania and other farmers in our country.

Have you considered that problem? Do you have any sense of what the impact would be if we had to lower the price support level below the projections in your proposal?

I am sure you heard me earlier indicate that the Congressional Research Service has estimated that if we were to use the price support mechanism solely, we would have to reduce the price support level in the first year to $10.45. Frankly, I am not sure of that personally because I have not worked through the numbers, but that is the number that has been given to us.

Assuming that is an accurate projection, what kind of impact would that have? Would you still support using that mechanism as the sole way of dealing with the surplus problem, which we all agree is a serious one?

Mr. **Hardie.** I guess I would like to speak personally on that point. I do not see that when there are too many authors in New York City that the Government steps in and says we will buy your books. That is a little different between books and milk here.

I guess my point is that we live in a free enterprise type society. People who entered dairy farming entered with, you know, back in my experience, the Government is involved in it and they are going to play a major part in it.

I guess I would say, I would be much happier knowing that everybody is treated the same. Let the chips fall where they will. Better management and probably the less leveraged people are the people who are going to stay in business.

Quite frankly, I think that one thing that is not taken into account very often is the people that are not highly leveraged may not really want to stick around with the price of milk that bad.

They may get out and, which, in turn, will shake things loose a lot faster.

There is not much of an economic return no matter how good you are right now. You can still make some money dairying, but I do not see that putting another diversion in is going to take care of it.

I just ended a meeting of the National Promotion Board, and Brian Calter, he is the new head of agriculture economics at Cornell, gave a talk on burgeoning growth. He said it is going to be available in 2 years, and 3 more years, that is a total of 5 years, we will need one-third less cows in the United States.

Now, I do not know how you handle that, but I know that I do not want to pay for diversion now, as I did a little while ago, and then have to pay for one in, say, 2 or 3 more years.

Mr. **Pardoe**. I think it was 2 years ago when we were talking about dairy problems, which we have been doing for many years, that the figure was given us that the importation of casein, that is used for food, costs the CCC program some $300 million. In other words, it displaced dry milk, which would have been used.

So, there would be almost your $400 million that you think you are going to be short, if that could be better controlled.

Mr. **McHugh**. That is a problem. There is no question about it. As Congressman Coelho acknowledged earlier in the press conference, we in New York are quite concerned about that. We are hopeful that something can be done to deal with that more effectively.

Yes?

Mr. **Eckel**. Congressman McHugh, in reflecting on your question, I think it is of great concern to all of us. The Farm Bureau has long been an advocate of a balanced budget, and has supported cuts in programs, excepting those in agriculture also.

Pennsylvania, amongst the Farm Bureau family, is somewhat unique in that 2 years ago, we dissented from national policy and supported a standby diversion program.

We believed at that time that because dairymen had been sent the wrong signal by the Government, they deserved a temporary period of time to make adjustments in their own operations. We cannot support a permanent long-term diversion program, and that is why we strongly support the American Farm Bureau position this time.

We believe that it is unfair to most of the dairymen to pay that bill for someone else to collect it, as was indicated in New York; $2 was paid out for every $1.

I think the other side of your question that I believe still needs to be addressed, and I understand Chairman Coelho's concern for the dairy industry, and how he has wrestled with it so far, and I understand the budget constraints.

If you look at the Farm Bureau proposal, in the first year, if you use Farm Bureau statistics, they estimate a cost of $1.43 billion, which exceeds your guidelines, Mr. Chairman, and not particularly your guidelines, but the guidelines as set by the budget.

If you look through the history of that program, the projections through the next 3 years, you will find that that declines in 1987 and 1988 to $1.38 billion, which is still above the guidelines, but in 1988, 1989, falls to $1.1, and 1989 and 1990, falls to $.77.

The economic motto that that is based on is taking into account the farmers will adjust to the cuts in the support price. The surplus problem was not created overnight, it cannot be solved overnight.

I think it is unfair of Mr. Stockman to expect that agricultural production can be manipulated immediately to fit Federal budget guidelines. I think, in the long term, 3, 4, 5 years of adjustments, we can meet the goals and should meet the goals as laid out by the budget. But, it cannot happen overnight, gentlemen.

Mr. COELHO. I would just like to say, Mr. Eckel, that the projections of the Farm Bureau of $1.3 billion are their projections, and we, in the Congress, cannot deal with somebody else's projections; we can only deal with the budget office projections, and taking those, their bill, H.R. 1965, and putting it into the budget office numbers, the projections for the first year comes out to $1.6 billion. That is what Matt was talking about.

So, it comes out to $1.6, which means that it is $400,000 over. So, there is just no way that we can accept the Farm Bureau bill because it is over the budget numbers.

I would happen to agree with you, Mr. Pardoe, if we could do something about casein immediately, that it would help us out substantially. The problem we have is that the administration strongly—opposes us in regards to doing anything on casein.

We do not have the support from the committee that has to handle it. If I had to handle it, it would be in the bill already. I can guarantee you. But, it is not a matter of our jurisdiction. It is of another committee, and the odds of us getting that are not good.

The House Agriculture Committee, which I am on, which the Livestock, Dairy, and Poultry subcommittee is a part of, has to come up with a $2 billion reduction, if we cannot pass it on to another committee. It has to be our committee, and, so, in order to reach that $2 billion, dairy has to do its $500 million.

I do not know of another way to do it. As one of you said, and I think it was Mr. Hardie, talked about the diversion program being permanent and that is not true.

I will not participate, as chairman of the subcommittee, if we are going to make the diversion program a permanent program. I am opposed to it. But, I am willing to go along with the diversion program if it is temporary and it will get us through the current overproduction in order to get us to a market-oriented program, and it has to be done, in my opinion, within a 3-year period.

We can do that and not bring down the price support to a level where you bankrupt people and you, Mr. Hardie, said maybe we do need to bankrupt some people. I do not mind people going bankrupt as long as everybody is treated fairly.

I am not in the business, though, of knocking it down to $9.60 because I do not care how successful you are, you are going to be bankrupt, and if you said that those that are even successful in the system might want to leave, what type of industry are we going to have? If those that are not successful go bankrupt, those that are successful go out of the system——

Mr. HARDIE. I did not say successful; I said leverage.

Mr. COELHO. OK. Leverage. OK. I am sorry.

But, the point basically is that you have got to preserve the industry, and if you knock price supports down to $9.60, you are not going to preserve the industry. If you knock it down to $10.45, you are not going to preserve the industry.

And, so, I am in a dilemma. I mean, if you can help me out, I would love you for it. But, how do we cut price supports without killing the farmer on price support reduction? How do we get the cost of the program down? And, have a program that goes on.

I am stuck with the $1.2 billion.

Mr. **Hardie**. I think we both have the same goal in mind, and that is to get over this mess and have the dairy industry intact, and I just do not see if you keep the type of people in business that you want to have in business, by paying people not to produce milk.

I will make an observation that in my hometown, my area, the people that participated in the first diversion program, quite frankly, were not the people that should stay in dairying. They were not just highly leveraged, they were also poor managers, poorly managed.

Mr. **Coelho**. Well, with the 100-percent buy-out program that we have, we would permit those that do not want to stay in for financial reasons or whatever, we would permit them a way to get out without having to go through bankruptcy, and maybe that would take care of some of your concerns.

I think that to legislate bankruptcy is not the way that any of us like to go nor will we go. I can guarantee you that.

Mr. **Hardie**. I think you have really gone overboard in that direction, quite frankly. I do not see that you are going to legislate bankruptcy for the industry. I think you are going to legislate bankruptcy for some people, and I do not like that one bit.

At some point, the thing has got to swing back. I hope that the system is put in place that is responsive enough so that you do not have a steep decline and sharp incline. That is terrible.

I mean, if you get into that situation, then you will have problems with the dairy industry. I do not know. I listen to dairymen. Do not listen to farm groups. That will be my advice.

Mr. **Coelho**. So, do not listen to any of you here.

Mr. **Hardie**. That is right. There are a bunch of farmers coming up.

Mr. **Coelho**. OK. Why do we not conclude this panel? Let us move on to some dairymen.

Mr. **Pardoe**. One question.

Mr. **Coelho**. Mr. Pardoe.

Mr. **Pardoe**. I believe in your opening remarks you indicated that many costs over the $1.2 billion would be borne by farmers.

Mr. **Coelho**. Has to be.

Mr. **Pardoe**. OK. Now, as a net return, what is the difference whether the support price drops below $11.60, for instance, or whether it stays up there, but then you turn around and charge us with a program, diversion program or some other method, of recouping any costs over the $1.2 billion?

Mr. **Coelho**. I could get into great discussion but I do not have the time. I will just briefly tell you that if you have the diversion program, the assessment is about 40 cents, if you do not have a diversion program, your price support will come down to $10.45, substantial difference. Substantial difference.

That is probably the margin of difference for a lot of dairymen, even those that are not leveraged, and I think it is the thing that we have to go look at and make that decision as to where we should be placing the dairy farmer. That is the difference.

Thank you very, very much.

Mr. ECKEL. Mr. Chairman, just one followup question to that. Based on those figures, what level of surplus are you predicting with the 40-cent assessment?

Mr. COELHO. What we are talking about is trying to, within 3 years, take the dairy industry out of the surplus situation that would trigger a diversion program. That is what we are trying to do.

I am insisting that we be tough but not overnight, because the cold-turkey approach, as most of you said, is the wrong way to go. But, if we are tough enough over a 5-year period, the dairy farmer will see that we are going to have a paid diversion for a 2- to 3-year period, and then, by the end of that period, you are into the market-oriented programs. If you get back up into surplus again, you have the price support going down, and we are not going to have a diversion program again. It is over with.

But, I think it is wrong to have a diversion program. I totally agree with everything you are saying, but do not forget, it was not only the dairy farmers that got yourselves into this problem. It was a combination of many things, and if the Federal Government would assist you in keeping out casein, would assist you in permitting your exports and would assist you in everything else that you do not have any control over, you would not be in the trouble that you are in today.

So, I mean, it is that balance that we need to come back to. How do we eliminate the surplus today without costing the taxpayers more than $1.2 billion, and without bankrupting the farmers? As a dairy farmer, one who really believes it, how do I do that without hurting people? That is where I am stuck, and I think the program that we come up with is the best.

I know that in the unreal world, I would support the Farm Bureau program because it is the right way to go, but in the real world, it is too expensive, and we cannot do it.

Mr. ECKEL. One last point that I would like to make, Mr. Chairman, and that is that I do not think perhaps for the benefit of the nonfarm public, we can make the point strong enough that the only problem greater than the surplus of milk would be a deficit.

Mr. COELHO. Absolutely right.

Mr. ECKEL. And, when we talk about dramatic cuts in prices, the $9.60 level, for instance, then we move dramatically into another area that no one is ready to accept.

Mr. COELHO. That is right. The thing that I want to remind you of, and I hope that as we move into this you remember that if you defeat what I am proposing you ought to have an alternative besides the $9.60 that can pass the Congress, because if you do not, it is going to be the $9.60, and it is going to cause what you just said we cannot have.

So, as you attack what we have done, please come up with something that makes sense in its place, and if you cannot, try to work with it to get over this hurdle, and that is all I have.

Thank you very much. I appreciate it.

The next panel will be made of Mr. Bucci and, as I can see here, three members of your assembly. Oh, you are representing all of them. OK.

So, Mr. Bucci, Mr. Hopkins, and Mr. Klice, is that right?

Mr. Bucci, we would like to hear from you, if you will proceed.

STATEMENT OF RICHARD A. BUCCI, REPRESENTING NEW YORK STATE ASSEMBLYMEN CLARENCE D. RAPPLEYEA, RICHARD H. MILLER, AND RICHARD I. COOMBE

Mr. Bucci. Good afternoon. My name is Richard Bucci and I am the regional coordinator for Assembly Minority Leader Clarence Rappleyea, and I am here on behalf of Assemblyman Rappleyea, who represents the 122d district, Assemblyman Richard Miller, who represents the 123d district, and Assemblyman Richard Coombe, who represents the 98th district.

The State assembly is in session today, which has prevented these gentlemen from appearing before you in person. The following is their statement:

The majority of our districts cover rural areas in the Counties of Cortland, Tioga, Broome, Cayuga, Delaware, Sullivan, Chenango, and Otsego. The driving agricultural force in these counties is the dairy industry, and we can assure you many of our constituents are concerned about its future.

Nationwide, New York State ranks first in the production of creamed cottage cheese and creamed cheese, second in Italian cheese and low-fat cottage cheese, and third in total milk production and total cheese production.

Thus, we are among the Nation's leaders in dairy production. With the national dairy issue and price support system at the forefront of public discussion in recent years, our dairy producers have found themselves in a nearly impossible position of trying to plan for the future.

Our dairy industry has been racked with major policy changes at the Federal level over the past several years, causing confusion and uncertainty among our dairy producers. The enactment of $1 per hundredweight assessment was an ill-conceived and counterproductive program that resulted in increased milk production as farmers tried to cope with a reduced cash-flow.

We realize that this program lowered Government purchases by some 40 percent, but the fact remains that we in the Northeast have a shortage of fluid milk. We produce 8 percent of the Nation's milk, and only contribute 4 percent of the Nation's surplus; thus, we are minor contributors of the Nation's surplus.

The voluntary Paid Diversion Program lowered milk production, but it did not meet with overwhelming approval from our farmers, as witnessed by the low signup, nor did it result in large-scale declines in milk production. Few dairy farmers believed that the diversion program was a satisfactory long-term answer to the national problem of overproduction.

In reviewing the options for the development to future Federal dairy policy, there are a number of widely different courses to choose from. The options range from simple modifications of the existing Price Support Program to Government-run control programs to the other extreme of abolishing all Government control and involvement.

We believe that the basic Price Support Program has worked well over the last 36 years, and that our current problems stem from changes made to the program in the late 1970's that left it inflexible and unable to respond to changes in the marketplace. As a long-term policy, we must restore flexibility to the program that will enable it to more correctly reflect the supply and demand in the marketplace.

In closing, regardless of whatever policy change is ultimately chosen, our Federal representatives need to give careful consideration to the short-term adjustment period. There is a need to ask who will survive and who will not. Each proposal will impact individual farmers and regions differently, and speaking as legislators involved in the formulation of policy, that short-term impact should be one of your foremost concerns.

We thank you, Mr. Coelho, for the opportunity to submit testimony on this important issue and for holding these field hearings in New York State on this critical legislation.

Mr. Coelho. Thank you very much. Mr. Hopkins.

STATEMENT OF THEODORE L. HOPKINS, DAIRY FARMER, FILLMORE, NY

Mr. Hopkins. Mr. Chairman, my name is Ted Hopkins, and I have been a dairy farmer for 18 years since graduating from Cornell University. I own a 600-acre farm in New York's southern tier. We milk 80 cows with 70 head of replacement stock and raise hay, corn, and oats for feed.

There are five criteria that I feel the 1985 farm bill should meet:

One, provide an adequate supply of product to consumers at a reasonable price.

Two, allow producers to adjust to consumer needs.

Three, give producers a reasonable return on their investments.

Four, be able to stimulate productivity when needed and discourage production when supply exceeds demand.

Five, should not allow manufacturers to produce solely to sell to the Government.

Let me first say what the farm bill should not be. It should not be in effect for longer than 4 years. Although this keeps it somewhat political, it would allow for adjustment if future conditions warrant. If we have a workable dairy bill, and the marketing and production conditions are relatively stable, political influence on any future revision of the farm bill would be minimal.

We cannot have a continuing decline in price. We must have a minimum price which can give producers a reasonable return. Our return has been continually regulated and cut, while our costs are not regulated and they continually rise.

The correlation between the declining prices and milk production is not clear. Long-term depressed prices will eventually decrease production by forcing dairy farmers out of business. But, by the time you reach this point of desired decreased production, you have done irreparable damage to the dairy industry by driving out many good managers while keeping in business many poor managers through continued FmHA support. I question the role of FmHA in agriculture. Is it really serving agriculture and the taxpayer, or serving itself and the political forces which control it? This warrants investigation.

My argument is that we cannot control supply by simply continuing to drive down prices, and expect to have the good dairy farmers and necessary support people needed to produce milk to be there when supply and demand come into balance. We will then become dependent upon someone else for our dairy needs.

Let me go into what we do need in the farm bill for dairying to stay a viable part of the economy. We must have a minimum price at which the average farmer can survive. I have attached to my testimony a chart showing a range of break-even points for dairy farmers on the Agrifax Record Program in the Springfield farm credit district.

These farmers are generally better than the average dairy farmers. As you can see, the district average for 1984 was minus 11 cents per hundredweight. In other words, costs were 11 cents more than the income.

Since that time, we have had another 50 cents per hundredweight drop in price and will have an additional 50 cents per hundredweight drop July 1, 1985. The chart illustrates that there is a wide range of break-even points, but if we take out the additional $1 per hundredweight and assume no increases in production costs, only the top 30 percent of these farmers are breaking even, much less getting a decent return on their investment.

Despite the fact that a large number of dairy farmers are losing money, milk production continues to climb. This indicates to me that farmers are trying to regain some of their losses by producing more milk. Therefore, we need a two-price system.

We should be allowed an equitable return on milk which is going to the open market, but a much lower price for milk which is going for purchase by the CCC. The second price should be low enough to discourage excess production.

Although I have always been against a quota system, I can see no other way to control production without endangering the viability of the dairy industry. A farmer's base is not to be negotiable. They could be made nontransferable by having a county committee determine the fate of a base that is no longer in use.

The farm bill should have a sensitive price adjuster. It should be tied to CCC purchases and adjusted often enough to give producers the right signals.

The 1985 farm bill is the most crucial piece of farm legislation introduced in the last 50 years. Agriculture is in a period of transition, from ever increasing demand for its products to a stable demand. Whether agriculture will continue to be the backbone of this country or whether the United States becomes reliant on the other countries in agriculture, as it has in other commodities, will be the result of the decision you, as legislators, will make.

[The attachment follows:]

Northeast Dairy Farms
Survivability Chart

	Margin Between Actual Milk Price and Break-Even Price in 1984
Top 10% Farms	$ 2.05/cwt. or more
Second 10%	$ 1.25 to $ 2.04/cwt.
Third 10%	$ 0.73 to $ 1.24/cwt.
Fourth 10%	$ 0.25 to $ 0.72/cwt.
Fifth 10%	$-0.13 to $ 0.24/cwt.
Sixth 10%	$-0.58 to $-0.14/cwt.
Seventh 10%	$-1.00 to $-0.59/cwt.
Eighth 10%	$-1.46 to $-1.01/cwt.
Ninth 10%	$-2.24 to $-1.47/cwt.
Bottom 10%	$-2.25/cwt. or less
District Average	$-0.11

Source: Based on the 1984 year-end business records of 555 First District dairy farms subscribing to the Agrifax® Farm Records Service.

Mr. COELHO. Thank you very much, Mr. Hopkins.

Mr. Klice.

STATEMENT OF BRIAN T. KLICE, DAIRY FARMER, CUBA, NY

Mr. KLICE. Mr. Chairman, today, I would like to talk to you about what things are really like down on the farm.

I am disagreeing with many of the reports that I have seen. Conditions are not as good as some people would have you believe.

My wife, Stephanie, and I were both raised on dairy farms. We have four children, sons 15 and 12, and daughters, 14 and 10.

In March 1979, we purchased a herd of cattle and a line of machinery and rented a farm until June 1983, when we purchased our present farm in Cuba, NY. In general, the land was in fair shape, but to make it a farm that will produce to capacity, it is going to take a lot of money and time. The buildings need paint and general repair and the land needs soil conservation practices.

The problem is there is not enough money to do anything. Production costs on a 50-cow heavily financed farm are so high there just is not enough money to maintain the farm. We have tried to be as frugal as possible, but there is a point where you must spend money to stay in business, and when there is not any money, farm life and farm survival are threatened.

Farming, today, is so different than 25 years ago, when I was growing up, that the comparisons can hardly be made. Our children watch us struggle to make ends meet, and they know how much hard work is involved, to only have what may be called bare essentials. They cannot wait till they are old enough to leave, and who can blame them.

At the present time, I have stalls for 54 milking cows. Without too much construction, I could milk 80 cows, but I would much rather stay where I am now. Any of the bills now proposed for dairy legislation would force me to expand.

Our farm is on the Cornell business summary, and we are nearly average on all accounts, except a few above and a few below. I do not have money to buy machinery I need. Our truck is 10 years old, and our car is 6 years old, and I cannot afford to buy a new one.

Since 1981, our production costs have risen nearly 19 percent, and our milk price received has decreased about 10 percent. We have two cheese plants within 5 miles of our farm, where they are hauling milk from the New England States and from the Midwest. Yet, because of outdated laws and Federal orders, we cannot get any more money for our milk.

These archaic laws must be changed, and a fair price must be paid for our produce. In 1984, we took only $6,400 for our family to live on, half the U.S. poverty level.

Allegany County has had six dispersals since January of this year. The ripple effect of this is showing up all over our county. Eighteen months ago, our John Deere dealer in Delevan, NY, closed up. Less than 30 days ago, our local Ford tractor dealership had his doors locked by the IRS.

Some parts of our county are really hurting. Restaurants, stores, fuel suppliers, and insurance agents are really feeling the pinch.

Without a healthy agriculture community, the economic recovery in the United States will never be complete.

I would now like to give you some observations we made while looking for a farm to purchase. There are many farms for sale in the Northeast today. Most of these farms are so far gone that it is economically impossible to return them to production. A well-kept farm is priced so high that the average young person cannot afford to own it. I firmly believe that this trend will continue, and a young person looking to make agriculture his life will find it very hard to find an affordable farm that he stands a chance to pay for in his lifetime.

Another item I would like to bring to your attention is what some young farmers are doing to stay in business. The young farmers' will to survive has finally overtaken his pride, in a once proud profession, and, in frustration, many are taking advantage of the social programs, food stamps, HEAP, and any other type of welfare they can find.

Last year, during the milk diversion program, the 50 cent per hundred deduction made many of these eligible for food stamps. It is not right for a farmer who produced 519,000 pounds of milk, sold over 16,000 pounds of beef, and over 1,200 pounds of bob veal, to need food stamps to feed his family.

This farmer had approximately $2,600 deducted from his milk check for the diversion program, and he is entitled to approximately $2,700 in food stamps, which he is collecting.

I truly believe that every dollar cut from the programs is a—that is a typo there. That should be farm programs will be redeemed in some social program two or three fold, and, if anything, the surplus will become worse.

Off the farm, part-time employment is another avenue many are taking, and this only takes jobs from nonagricultural people. The farmer's machinery is not being replaced. They are outdated. The farms are eroding, and soil fertility is decreasing, but, from all appearances, the farm is surviving.

Our college and co-op agriculture economists get an 8-percent raise every year, and then tell us to tighten our belts and economize.

Mr. Chairman, I say to you, our belts are in their last hole, there is no tightening left.

Finally, a few thoughts on our farm bill. Fewer farms have not, do not, and will not mean less surplus. Farm bill 1985 will decide many things, one of which is, what does our Government feel is most important, one 5,000 cow dairy or 100 50-cow family farms. The family farm has been the cornerstone of American agriculture and I feel it must survive if rural America is to survive. I feel that a tiered pricing system in compliance with demand is the simplest way to go.

David Stockman and John Block have delivered a very clear message, a well-fed Nation is not an important item in their eyes. Last year, there was more money spent in health spas, weight loss clinics, and dieting than the Government spent on farm programs. Farm bill 1985 might put a lot more people out of business than just farmers.

I would like to thank you for coming to the Empire State to conduct these hearings, and I would like to leave you with this thought.

A good farmer is a skilled craftsman in his own right, and he deserves a fair living wage for his work.

Thank you.

Mr. COELHO. Thank you, Mr. Klice. Mr. McHugh.

Mr. MCHUGH. Thank you very much for the testimony, all of you have given.

We could spend a lot of time pursuing this with each of you, and we should. I have a sense, however, that we are going to be unfair to those who come after and have been waiting. So, I am going to defer with great reluctance, any questions I would like to ask and turn it back to the chairman.

Mr. COELHO. Thank you, Mr. McHugh.

Thank you very much for appearing. We appreciate your making the effort to be here today.

Mr. Jensen, Mr. Schaedler and Mr. Brink, please. Frank is not here yet, so we will skip him for the moment, and if he does come in, we would be happy to take his written testimony and make it a part of the record.

Mr. Jensen, you may start, please.

STATEMENT OF DONALD "SKIP" JENSEN, DAIRY FARMER, PENN YAN, NY

Mr. JENSEN. Mr. Chairman, I would like to thank you for coming to New York State to hear the testimony.

My dairy farm is located in Penn Yan, NY, which is about 100 miles northwest of Binghamton. I am one partner in a three-way partnership, which includes my father, Robert, as the senior partner, and Michael Hoffman, who is about my age.

We have 160 to 170 head of mature milk cows, and about 130 head of replacement young stock. We also work about 600 acres of land on which we grow corn, alfalfa hay, wheat, and oats. Most of the crops are used for feed for the dairy, although we do sell some corn and the wheat and oats for cash grain.

We hire one full-time employee plus some part-time help during the busy summer season. Our total gross sales for 1984 were $397,368. Even though this farm is a partnership and supports four families, I still consider it a family farm. Sometimes life on a dairy farm can be very frustrating, but also very rewarding. We have sickness and disease to contend with as well as mother nature and the weather. We also have legislation that comes out of Washington that we must adhere to.

I would like to address the remainder of my time to some thoughts and ideas I have about the pending 1985 farm bill, particularly the dairy section.

I think we are all in agreement that there is an overproduction or an underutilization of milk, whichever way you want to look at it. We, as dairy farmers, are trying to do something about the underutilization with the 15 cents per hundredweight promotion program.

I strongly believe that this promotion program is working and whatever legislation is finally written should include this provision, providing the producer referendum supports it.

Now, for some ideas I have on how to get production more in line with the utilization. It was shown during the diversion program that this philosophy will work, but it is not a permanent solution. The first month after the program ended, production was up 3 percent nationwide.

Farmers have a cash-flow to maintain, and if they are not going to get a diversion payment, they must milk cows and get it in their milk check to meet their obligations. The diversion program was a short-term solution to a long-term problem. That has been proven.

I do not think a quota system will work either. In my opinion, if you have a quota system, all incentive for doing a better job is gone. After all, why should I try to do better if I am going to be penalized for it. A quota system just keeps the inefficient farmer in business and the efficient one from getting better.

I believe that the concept of price supports should be continued. It has worked very well, and at a relatively modest cost up till the past few years. I think once we get production back in line with utilization, it will again be at a modest cost. Eliminating or crippling the price support program would be clearly counterproductive for the American economy.

We should create a new dairy specific parity that reflects the present state of the industry, in terms of cost and productivity. We should establish a formula that will require the Secretary of Agriculture to move the support price up or down in response to supply/demand as reflected in the annual rate of purchases by the CCC. If this type of formula had been in place 4 or 5 years ago, we would not be in the state of overproduction we are in now. You cannot legislate production.

I believe the Federal milk marketing orders should continue. They have operated effectively for more than 45 years to assure consumers of an adequate supply of fresh, regionally produced milk at reasonable prices. They have stabilized a volatile industry while not guaranteeing any specific level of prices. They have provided for an equitable payment to producers and relatively equal cost to handlers for raw milk.

It is critical to the viability of the national dairy industry and to the availability of a supply of regionally produced fluid milk to consumers, that the market order system continue, and that no drastic changes be allowed to undermine its effective operation.

I would like to comment about the bovine growth hormone. Researchers at Cornell University have shown that this hormone, when given daily to lactating dairy cows, will increase production by as much as 30 percent or more. This is still in the research stage, but all results to date show no ill effect on the cows or their milk. This hormone is a totally natural product. That is why I believe it will be approved for commercial use. When it is approved, I believe that there will be widespread use almost immediately. Can you imagine if, tomorrow or next month, having 30 percent more milk?

I think just—you know, we have a big problem right now. We are going to have more of a problem when that happens, and I think whatever plan we have should be a long-term plan that can take this into consideration. I think it is coming.

Gentlemen, that is why I believe that whatever legislation is finally passed must be a long-term plan. As a businessman and a dairy farmer, I have to have a long-term plan. You just cannot change the rules in the middle of the game. It just will not work. It takes 3 years from the time a cow conceives until that resulting offspring is milking in my herd. I have to have a long-term plan.

I believe that the ideas I have presented to you have a flexibility to work. They will cut costs to the Government, they have no quotas, and it is a long-term plan.

Thank you very much.

Mr. **Coelho**. Thank you.

I would like to just comment quickly on your testimony. Assuming the producer referendum supports the dairy promotion programs, that is in the bill. The formula that requires the Secretary of Agriculture to move price supports up or down in response to supply and demand, that is in the bill.

Federal marketing orders should be continued. That is in the bill. A long-term plan, that is what we are trying to do. That is why we have a 5-year program in the bill.

Mr. **Jensen**. I think we are pretty much in agreement.

Mr. **Coelho**. Mr. Schaedler.

STATEMENT OF DANIEL P. SCHAEDLER, DAIRY FARMER, ODESSA, NY

Mr. **Schaedler**. Mr. Chairman, I am Dan Schaedler, dairyman from Odessa in Schuyler County, NY. My wife and I own and manage a herd of 130 Holstein cattle.

Before we started in the dairy business, my wife and I did extensive research to calculate the profitability of operating a business, assuming different economic conditions.

In 1981, we decided to place our faith in the milk marketing order, and believing we could accept any changes that might occur, to purchase our cattle and lease dairy facilities. Unfortunately, we could not have anticipated the dilemma we now face. We find difficulty in stretching the dwindling milk check over increasing production costs.

I had always believed that our price support program stringently monitored supply and demand in an effort to maintain an adequate, steady supply for consumers, as well as a reasonable price for dairymen. As we all know now, this is not happening in the early 1980's. In this democratic society, it is difficult to blame one agency or committee for allowing these massive increases in Commodity Credit Corporation purchases. We, the people, elected representatives to maintain an appropriate framework for our free enterprise system.

Certainly, highly influential groups pushed for this originally attractive legislation in the 1977 farm bill. That bill established the semiannual review of support levels and the minimum support price was raised from 75 to 80 percent parity levels. This incentive to increase production came at a time when production was already beginning to recover from hard times in the early 1970's.

In addition, the political-economic retaliation the United States imposed on Russia in the form of the grain embargo, during the late 1970's, caused a surplus of feed grains at home. This only encouraged farmers to increase production because of cheap grain prices.

These two events allowed dairymen to prosper through the late 1970's, into the 1980's, until the Commodity Credit Corporation levels reached over 16 billion pounds.

After the past unsuccessful attempts to decrease production to reasonable levels, I believe the farm bill of 1985 must bring supply and demand in the dairy industry into balance.

I am opposed to any mandatory diversion plan. I feel that this may only postpone the eventual lowering of the support price as production increases at the program's completion.

We have evidence of this type of response since we have seen a national increase of 4 percent in milk production since April 1, 1985, the termination date of our last diversion plan.

I believe a more permanent solution may lay in the Farm Bureau proposal, whereby the support price could be lowered in response to the Commodity Credit Corporation purchases. I realize that this will make the economics of farming more difficult, but believe that well managed farms will survive until production levels can be stabilized. The needed reduction in production will be obtained by phasing out mismanaged farms.

For these reasons, I feel it would be to the benefit of all in this country for this subcommittee to incorporate the Farm Bureau proposal on dairy supports in the 1985 farm bill.

However, since I am willing to accept a lower price for my milk to benefit the dairy industry and the country, I believe Congress should modify our tax laws to protect farmers from competing investment by professional individuals seeking tax shelters in agricultural enterprises. The investments stimulated by tax shelter opportunities contributes to the production surplus. In addition, I believe the value of making low interest Farmers Home Administration loans to submarginal farms who are adding to the surplus should be carefully reevaluated.

Before, you mentioned you could not accept the Farm Bureau proposal because it would cost more than your budget. Now, I can understand that problem. I have budgets myself, and when I really look at it closely and see that this is going to cost me more than what I can really afford, I really look to see, all right, is there some chance that, in the long run, that it will pan out if I can make it through.

Now, everyone here has agreed that we need a long-range plan. I believe that someone should break, not necessarily break the rules, to improvise, to impose this program, to gain a long-term effect. It would come about, I know that, in the Congress, our Congressmen receive raises for the last few years, and I will not ask either of you two gentlemen which way you voted on that.

Now, you can see long-term goals come from that, and I think that a little bit more money possibly at first would see a better result in the long-run, and I think it would be a worthwhile investment.

Thank you for this opportunity to share my experience and views with you today.

Mr. **Coelho**. Thank you very much.

Mr. Saik.

Mr. **Saik**. I did not write out a real big long speech or anything like that.

Mr. **Coelho**. That is all right. We will take your words and make them part of the record. Go right ahead.

STATEMENT OF DAVID A. SAIK, DAIRY FARMER, SPENCER, NY

Mr. **Saik**. First off, I would like to say that farmers are not going to exist for the present price of milk for very long because no one in no business can produce the low cost for very long, and I just think also that, in this so-called surplus, I think some of our processors find it more convenient to sell to the Government than to the open market because there is less hassle, it is a guaranteed market, and so forth.

I guess that is about what I wanted to say. I think that we need more promotion, as Pepsi and Coke, they promote—I see you drinking Pepsi or Diet Coke there.

But, based on the great deal of money for promotion and they sell a great deal of product, too, and I think that we are not spending enough money to promote our product.

I think processors should also be contributing more to this promotional problem of the product. To sell more of it.

Mr. **Coelho**. That is why, in the bill, we have a promotion program of checkoffs, assuming that producers adopt it. I happen to agree with you on that.

Mr. McHugh.

Mr. **McHugh**. Very briefly, Mr. Jensen, what is your view on the diversion program? You mentioned that you were opposed to quotas, but I am not clear in my own mind whether that would include the diversion program or not.

Mr. **Jensen**. I am opposed to the diversion program. I can see your reasoning as to why you want to have it, and why it is in the bill.

I just hope that, if it is passed, that it is short term. Is that written into the bill, that it is 3 years?

Mr. **McHugh**. Yes, sir.

Mr. **Jensen**. That is it.

Mr. **Coelho**. What we do is we provide for the mechanism in case there is an emergency, but I can guarantee you that the bill that comes out of Congress will cut it out.

Mr. **Jensen**. Because that is what I am afraid of. We said here that the first month after the diversion program was over this time, production went back up. And that is why I am opposed to the diversion program.

I can see your point of it, and I still think that we could solve the problem without a diversion program.

Mr. **McHugh**. Thanks very much.

Mr. **Coelho**. Thank you very much. I appreciate all of you coming and testifying.

Now, I would like to have Mr. Olin, Mrs. Reynolds, and Mr. Bachler.

Mr. Olin, you may proceed.

STATEMENT OF WILLIAM OLIN, DAIRY FARMER, NINEVAH, NY

Mr. **Olin**. Congressmen, my name is Bill Olin.

My wife and I milk 60 Holsteins on a farm in Ninevah, NY, which we bought in 1980. I believe that the Government has a legitimate role to play in agriculture and dairying.

In the first place, marketing orders and price support programs created some degree of order in the chaos of unregulated marketing in the early 20th century. And, while there are less dairymen now than in 1910, there are also many less milk buyers.

More important than that, though, is that the Government needs to be involved with agriculture, to shield agriculture from actions taken by the Government.

When they were talking about the Soviet grain embargo after Afghanistan, which I believe was a major factor in the current dairy oversupply, Japanese soybean embargoes, the refusal to limit casein imports that affect CCC purchases, foot-dragging on countervailing duties, or the big one, the budget deficit and Congress' inability to do anything meaningful about it, actions taken or admitted by legislators and administrators alike have a great deal to do with the ability of agriculture to survive.

The recent decision of the Environmental Protection Agency to ban the sale of leaded gasoline is going to affect my farming operation. My car, which quit on the way over, so I had to go back and get the truck, the newest of which is 1974, two of my tractors I use every day, field harvester and other engines I use, all are designed to run on leaded gasoline, and there is no way I can afford to replace them.

Another issue that I feel strongly about and should be addressed is the use of farming as a tax writeoff by individuals and corporations.

Just as surely as subsidized imports from Europe are competing unfairly with family farms, so, too, are those organizations that set up for tax avoidance, contributing unneeded assets and production to already depressed markets in milk, meat, and grain.

Further, these operations tend to be larger farms, so even though in numbers they may seem insignificant, each investor farm probably offsets several family farms.

Other businesses, such as the one where when they talk, everybody listens, recently advertised their willingness to lease equipment and so forth to farmers. I do not believe they are doing it because they feel sorry for us, and we do not need tax shelter dollars in agriculture.

What would I recommend? Most important is getting the budget deficit reduced. The strong dollar overseas limits our ability to export grain and adds to the problems of domestic farmers, both crop farmers and dairymen. If crop farmers cannot sell their grain as grain, they may sell it after cows change it to milk.

Second, continue the marketing orders and price support programs. They have generally performed well over their history. If

Government purchases are at too high a level, as they are now, lower the support gradually. You know that it was 50 cents in April and will go down another 50 cents next month.

I would hope that there will be a chance for the dust to settle from this round of cuts before more drastic cuts are made. And, legislation should have provisions to increase price supports when the market supply falls too far.

Third, give serious consideration to limiting or eliminating the use of agriculture as a tax writeoff, keeping in mind that some family farms depend on the wife's off-farm income to survive. The accelerated depreciation from the 1981 tax act should never have been instituted.

And, avoid rapid shifts in direction of agricultural policy and be consistent. It is very frustrating to watch cows to feed the world in answer to a diversion program and imported dairy products that do not contribute to assessments or advertising funds that add to CCC purchases. Thank you.

Mr. Coelho. Thank you very much.

Mrs. Reynolds.

STATEMENT OF SUSAN R. REYNOLDS, DAIRY FARMER, DeLANCEY, NY

Mrs. Reynolds. Congressman McHugh, Mr. Chairman, fellow farmers, "the farmers of the United States are up in arms. They are the bone and sinew of the Nation; they produce the largest share of its wealth; but they are getting, they say, the smallest share for themselves. The American farmer is steadily losing ground * * *. There is no doubt that the farmers of this country are tremendously in earnest just now, and they have reason to be. Beyond question they are suffering sorely. The business of farming has become, for some reasons, extremely unprofitable. With the hardest work and with the sharpest economy, the average farmer is unable to make both ends meet; every year closes with debt, and the mortgage grows till it devours the land * * *." This article was written by a man named Washington Gladden, it is entitled, "The Embattled Farmers," and was written in November 1890. So, we see the cycle repeat.

As dairy farmers from Delaware County, NY, my husband and I are only too aware of the agricultural situation in the Northeast today. To say that these last few years have become increasingly frustrating and depressing would be, at the very least, a gross understatement.

I have compiled the following data from our own farm records to show some comparisons between May 1981 and May 1985.

Interest at Federal land bank from 1981 to 1985 shows an increase of 1.5 percent. Has been higher, but it is now at 1.5 percent higher. Our electric bill from May 1981 to May 1985, has increased 75 percent, with the same operation. The market administrator's price for milk in May 1981 was $12.83. The price for milk in May 1985 was $11.78, or a decrease of a $1.05. It certainly does not take a mathematician to figure out that this situation cannot continue indefinitely.

In the decisions for the upcoming farm bill, I feel the following points should be considered:

One, the continuation of the purchase program by the Commodity Credit Corporation.

Two, the parity calculation needs to be updated from its 1910 to 1914 base period to reflect the current production and marketing situation.

Three, a supply/demand calculation should be included in the price support, which would move the price up or down according to CCC purchases. In other words, if purchases are low, the price should be increased. If purchases by CCC are high, the price should be lowered.

Four, I strongly endorse the continuation of the dairy promotion program. There is not much use in working 17 hours a day, every day, to produce a product that you are not willing to promote in every way possible.

I have become increasingly concerned by the notion that Government is aiding farmers, when it subsidizes a commodity, when, in truth, Government has been subsidizing cheap food for the consumer. We know, for instance, that in 1984, the U.S. consumer spent approximately 15.2 percent of his disposable income on food, down from 15.6 percent in 1983 and down from 16.8 percent 10 years ago. Food is this country's best bargain. If we want to continue to provide consumers with a variety and abundance of quality food products at these low cost levels, then Government must continue to subsidize the farmer.

Research and growth are an essential part of any industry. However, I am aware that we continually spend moneys searching for ways to produce higher yields, more grain, more milk. We have become so obsessed with bigger and better, that I think we sometimes sacrifice the quality of life in our never-ending search for quantity.

Therefore, I leave you with this question: We are putting time, money, and effort into researching a bovine growth hormone that will enable cows to produce at least 25 percent more milk. The end result of this will be fewer farms. Is there time, money, and effort being spent researching alternative lifestyles or ways of living for these displaced farmers?

I appreciate the opportunity to share my ideas and concerns with each of you and wish you well in the decisions you must make.

Thank you.

Mr. **Coelho**. Mr. Bachler.

STATEMENT OF FRANK R. BACHLER, DAIRY FARMER, EAST MEREDITH, NY

Mr. **Bachler**. Chairman Coelho, Matt, I would like to thank you for the opportunity to testify today.

My name is Frank Bachler, and, together with my family, I operate a dairy farm near Delhi in Delaware County, NY. We milk approximately 100 Holstein cows, crop about 235 tillable acres, usually we produce enough roughage for our herd and purchase all our concentrates.

I ship my milk to Garelik Farms in the Boston, MA, market. I am presently working with other dairy farmers to organize the Atlantic Dairymen, which is basically an attempt to give a voice to independent dairymen not cooperatively affiliated.

The concerns I have today emanate from the fact that dairying in Delaware County and, indeed, in New York State, is in a serious state of decline. Our land is mainly hill farms with a small number of river flat farms.

The basic industry in Delaware County has always been, and is now, our dairy farms, with most of our local town and school revenues coming from these farms. There is no doubt that a serious decline in dairying will have a corresponding decline in the overall economic health of the entire area.

I feel that the present formulas used in computing our prices under the Federal marketing orders have not kept up with conditions under which we must operate. Our cost of production in the Northeast is higher than in areas such as California because our climate necessitates the stabling of our cattle for approximately 7 months of the year; geographically assembling large herds is difficult. Our taxes—local, school, and town—are probably among the most burdensome in our land.

I feel that the manner in which the Commodity Credit Corporation is used to establish prices for dairy products must be changed. The CCC has become the primary purchaser of dairy products when, instead, it should be the buyer of last choice. Handlers should first strive to sell their products in commercial channels, and only to the CCC as a final resort. Establishment of the Martin Plan would accomplish this.

I feel that some mechanism is necessary to control excess production. As it is, this surplus production is responsible for many of our economic problems. We need a two price plan to kick in when production reaches a level surpassing our domestic needs, with a drastically lower price for that production which is excessive. This could be done order by order with a dairy board of elected farmers to participate in and advise on the changing conditions of our markets.

I feel that the diversion plan had some merit at the time it was implemented because it bought the industry some time to adjust to the changes that were taking place. It was, however, only a Band-Aid and not a long-term solution to the problems we are faced with. Basically, it caused a shift in production from one farm to another and from one geographical area to another.

New York State actually found itself in a short fluid supply situation. On two occasions, the market administrator had to use the call provision to force class II handlers to provide a percentage of their milk to be used for these class I fluid needs. The lack of unity between dairy co-ops and independent farmers to achieve an over-order price in this area has been a disappointment as this certainly should have been achieved.

There has been much discussion lately about a new product developed at Cornell University. It is called the bovine growth hormone. If used correctly, this product will increase production anywhere between 20 and 40 percent. This much of an increase will certainly lower our prices and only speed up the demise of many of our dairy farms. I also feel that its use will have an adverse effect on the content and quality of the consumers' food. A much longer testing period should be implemented to assure that there will be no long-term side effects on a product of this nature. This should be pointed out to the FDA.

I feel that an attempt should be made to coordinate money spent by dairymen for research and development, so that duplication is eliminated and an efficient use of this money is made. Most of the products being looked at are class II products, and, therefore, will be priced at below the cost of production.

As a final word, I would like to take a quote from William Jennings Bryan delivered in 1896:

> Burn down your cities and leave our farms, and your cities will spring up as if by magic; but destroy our farms, and the grass will grow in the streets of every city in the country.

Thank you for this opportunity to speak at this public hearing.

Mr. COELHO. Thank you very much, Mr. Bachler. Mr. McHugh.

Mr. MCHUGH. Thank you all for being here. I know that you and others have come some distance to be with us, and we do appreciate your views and recognize your plight. I hope we can be constructively helpful in the legislative process this year. Thank you.

Mr. COELHO. Thank you very much.

Mr. Bachler, I just might say that your comments about CCC should become purchaser of last choice, that is what we are trying to do with this bill, and that is basically what we are saying. That we have to revert to that. It has not been the case now, and we have to revert to that. Hopefully, the way the bill is drafted it moves in that direction and makes that point.

I am very interested. I have been talking to your ag commissioner about the lack of unity in regards to achieving an over-order price.

I think that would solve a major problem that you have in this area, and, hopefully, there is some way that we can help to get that done. I think that, to some extent, a lot of dairy farmers in this area point to the diversion program as being a major culprit of their problem.

As a matter of fact, I think one of their major culprits is their lack of ability to get together, and I think we need to work on that, and I intend to use our subcommittee to try to help you get there, if we can.

So, you will be hearing more from me in regard to that whole effort because I am concerned why the Northeast is in the trouble that it is, more so than any other part of the country.

So, we will be working on that more. We appreciate very much your testimony, all of you.

Now, we would like to hear from Mr. Huneke.

STATEMENT OF FRED W. HUNEKE, DAIRY FARMER, DELHI, NY, ON BEHALF OF ATLANTIC DAIRYMEN

Mr. HUNEKE. Thank you.

My name is Fred Huneke. I am a dairyman from Delaware County, NY. I give my testimony today as a member of the Atlantic Dairymen, which we are attempting to organize at this time.

The national support price for milk was reduced from $12.60 to $12.10 per hundredweight on April 1, but was offset by the termination of the 50-cent deduction from milk proceeds sent to the CCC.

The support price is reduced under the provisions of the Dairy and Tobacco Adjustment Act of 1983, which authorizes the Secretary to reduce the support price on April 1, if net CCC purchases for the next 12 months exceed 6 billion pounds of milk equivalent.

It is estimated by the Secretary that CCC purchases for the next 12 months will be in excess of 9 billion pounds.

The act also authorizes an additional adjustment, if the Secretary deems it necessary, on July 1. It seems, at this time, as though this 50-cent reduction will be put into place.

It is this adjustment that we at Atlantic Dairymen are looking at very closely. As we look at the class I differentials, we realized that the transportation differential, the cost of transporting milk from areas of production to areas of consumption, has not been updated since 1968.

The transportation differential is figured at 1.5 cents per 10 miles from Eau Claire, WI, to the middle of the 210-mile zone in order No. II or about 1,000 miles or $1.50. To this $1.50 is added the extra cost of producing grade A milk over grade B milk, which is figured at 90 cents, for a total of $2.40. However, in 1977, after a lengthy hearing, it was decided to lower the class I differential to $2.25, to reflect higher transportation costs from the 210-mile zone to New York City. The question arises, though, why should farmers in the country have to pay for the higher cost incurred by handlers to move milk from the 210-mile zone to New York City?

The transportation differentials have been updated within the orders themselves. As an example, order II had an update in 1981, when it went from 1.8 cents per 10 miles to 2.2 cents per 10 miles, and probably can be done again for 2.5 or 2.7 cents.

We realize that we must be realistic in our approach. It would be foolish to raise it to a point that would exceed the cost of buying milk in another supply area and transporting it to the consumer market. An important guide in a given market is the cost of alternative supplies.

One reason that class I differentials have not been increased to reflect additional transportation costs is that markets generally have remained adequately supplied at existing class I price levels.

However, it is becoming increasingly apparent that in the months to come, that the Northeast and the Southeast are going to be milk deficient areas.

It would seem then that if, within the orders, the figure is set at 2.2 cents per 10 miles, or raised to 2.5 or 2.7, to reflect more accurately the cost of transportation, then these same figures should be used from Wisconsin to New York.

We are not asking for a major change in legislation, but, rather, an accurate accounting of and a responsible updating of our present system.

If the Federal order system cannot be adjusted to reflect the increase in cost, then we suggest that the Federal order system be suspended in orders which are generally known as the Northeast corridor. We have the population and the production so as to be able to determine our own pricing system under our emergency State orders and sever our dependence on the Minnesota and Wisconsin series.

Some information gathered here was taken from the USDA, Agricultural Marketing Service Bulletin No. 27 entitled the "Federal Milk Marketing Order Program."

Thank you very much.

Mr. COELHO. Thank you very much.

I might just say that you bring up a point that I am pursuing, which is the price differentials are written in the bill. We do not think that USDA is doing the job it should be doing. It has the ability to make these changes as you well know and you point out.

But, they are not doing it, as they should be, and, so, we have put some changes in the bill; a legislative demand that it be done. I prefer not to do it that way because I think the Secretary should have the discretion, but as a result of our talking about it and moving on it, the Secretary has already announced a hearing in the Southeast. I think what I need to do is start talking about some of your problems, and maybe he will schedule a hearing up here, too, and try to do something.

I will pursue this, and I appreciate your bringing it up.

Mr. HUNEKE. Thank you.

Mr. COELHO. Mr. Bourgeois.

STATEMENT OF GERARD BOURGEOIS, DAIRY FARMER, MORRIS, NY

Mr. BOURGEOIS. My name is Gerard Bourgeois, and with my son, Brian, I operate a dairy farm in the town of Morris, Otsego County, NY.

We sell over 1 million pounds of milk a year, and, in addition, sell hay and high moisture corn. I appreciate the opportunity to testify before this hearing held at a very distressful time for the dairymen of our area. Political action in the near future may well determine the existence of our type of family owned and operated farm in this country.

I am one of the farmers attempting to organize Atlantic Dairymen, a group of dairy farmers trying to provide a voice for actual hands-on dairymen in the Northeast. We feel that several issues need to be addressed at the Federal level if dairying in our area is to have a chance to compete for the market.

One, the 15-year-old freight differential levels need to be adjusted upward to reflect actual cost of moving milk. M–W pricing should not destroy our markets.

Two, the present CCC purchase system needs to be overhauled in favor of a plan similar to the Martin plan, which I will read.

We talked several times about the CCC purchase. I want to read this one page, condensed version, which is supported by the Atlantic Dairymen.

This would free dairymen from the support price, provide incentive for industrywide responsibility for levels of production; provide stimulus for processors to compete for commercial markets, and relieve dairymen and taxpayers of this burdensome surplus situation. It would also end public provision of an automatic market for anyone wishing to move into the industry. I would like to read the Martin plan now.

The present system employed by the CCC in its purchase of dairy product to maintain milk price support price level has developed some problems which must be addressed, if a maximum level of dairy products are to move through the marketplace to consumers.

The first part of this paper will identify some of the problems of the current system, the second part will briefly explain the Martin plan.

One, the present system does not provide processors with sufficient incentives to move maximum levels of dairy product into commercial market channels.

Two, the support price has become the effective price, often nullifying actual supply and demand situations, which would be positive for the industry.

Three, the present system provides an incentive for excess production in areas where market conditions would not support such production.

Four, the present system has proven to be extremely wasteful of dairy industry resources and capital as well as taxpayer money.

Under the Martin plan, the Government will offer certificates for sale to processors wishing to compete for that market for dairy products. A determination would be made at the beginning of each marketing year as to the dairy products needed to supply legitimate Government need.

Processors would bid on these certificates for the opportunity to supply these markets. Sale of certificates would be offered monthly with an effort made to balance periods of high production with the purchase of storable products.

If Government demand for dairy product exceeded the sale of certificates, this portion of actual needs would be purchased on the open market. Dairy production in excess of commercial and actual Government needs would be taken off the market at world dairy price levels.

Certificates would not be offered for this production because price alone would discourage production. The advantages of the Martin plan for the U.S. dairy industry follow:

One, a competitive system would provide market growth essential to a dynamic progressive industry.

Two, competitive marketing would provide quality product incentives.

Three, taxpayer costs for the price support system would be eliminated.

Four, competitive marketing would reinforce the responsible decisionmaking on the part of total dairy industry management.

Five, responsibility for supply and demand balance would not rest solely on the shoulders of dairymen, but would be spread throughout the industry.

Six, it would provide a stimulus for upper price movement when warranted by supply and demand conditions.

In going back to my testimony for this hearing, the Louisville plan:

Three, the Louisville plan which is a type of an incentive plan we have in this area, needs to be updated to properly reflect the 20-year period of strong inflation—1960 to 1980—which made its seasonal price incentives ineffective.

Four, the New York State milk licensing laws must be recognized for what they are, a barrier to interstate trade, and taken off the statute books.

Five, the dairy diversion program, which operated to the disadvantage of traditional dairy areas and to the advantage of the South and West, must not be reimposed on the dairy industry.

Six, proposals which attempt to adjust the price support system downward and do not address any other aspect of the problem will not operate in the best interest of either dairymen or consumers.

Seven, if the problems above are not addressed, the Northeast dairy industry will have no choice but to scrap the Federal system and set up a regional system aimed at both survival of the dairy industry and supply to our consumers a top quality, competitively priced products.

Eight, the USDA should investigate the operation of dairy co-ops in the Northeast. These organizations have caused irreparable financial harm to many farm families.

Thank you for the opportunity to take part in this hearing.

[The prepared statement of Mr. Bourgeois appears at the conclusion of the hearing.]

Mr. COELHO. I will just say that in listening to your testimony, you said the dairy diversion program operated to the advantage of the South and the West. That is where we get most of the complaints from. They do not feel it operates to their advantage. I find it interesting that everybody points the finger at somebody else.

Mr. Donnelly.

STATEMENT OF THOMAS R. DONNELLY, DAIRY FARMER, WALTON, NY

Mr. DONNELLY. Yes, thank you.

I am Tom Donnelly, dairy farmer from Delaware County.

I do not want to talk about the plight of the farmer. I would like to address the issues of agricultural imports.

At the present time, the American farmers are faced with unrestricted agricultural products being imported into this country with the U.S. Government picking up the tab through displaced domestic products purchased by the CCC.

I am not only talking about dairy products, but all agricultural products, including beef, pork, vegetables, potatoes, honey, and, the closest to my heart and everybody here, dairy products.

It is also interesting to note that even when a product does have an import quota placed on it, that these quota levels are exceeded, and the only good reason that USDA can come up with, the only answer to that is, it is a reporting error. I do not think we, as dairy farmers or the Government, can tolerate such things.

I think we need to look at the economics involved in limiting agricultural products being imported. It would greatly benefit the United States.

Dollars spent on imports do not recirculate within our own economy.

On the other hand, dollars spent on domestic agricultural products do recirculate within our own economy through such things as agricultural production inputs and agricultural production output, and also a good share of it goes for personal disposable income.

It is estimated that agricultural dollars have a multiplier value of five times, and that one of every five jobs in New York State are related to agriculture. I think you can see the impact that agriculture has on any economy.

It is important to note that agricultural income, as I said earlier, is not only spent on agricultural products either on the production side or on the processing side, but we, as farmers, if we can afford these luxury items, do enjoy new cars, entertainment, stereos, TV's, and other things, which only bolsters our economy here in the United States.

In limiting imports, we can then increase the demand for domestic products—and bolster our economy—that have been displaced by those that are imported. Many experts claim that most of the dairy products being imported are specialty items which do not affect domestic sales.

This may be true, but my answer to that statement is, to import the technology, to manufacture these export products, therefore, using our raw milk to make them.

It is quite interesting to note that if you do increase our manufacturing of these specialty items, that only again creates jobs and bolsters our economy. Reclassifying casein is another point I have. I think we need to reclassify it as a dairy product. It is now classified as a chemical, and it is not subject to any dairy import rules, restrictions or fees. Yet, casein competes with milk for use in such things as frozen pizzas, convenience foods, whipped toppings, coffee lighteners, and many more, all displacing whole milk.

There are a number of articles dealing with agricultural imports over quotas and, of course, dairymen and other ones dealing with imports of casein, I have sent a copy of those articles to Mr. McHugh's office, to be included in the record for this hearing.

At the present time, Congressman Toby Roth of the Eighth District of Wisconsin is sponsor of a bill, H.R. 431, the Milk Protein Fair Trade Act of 1985, which would limit the amount of casein that may be imported into this country. I feel this is a start in the right direction, but, yet, more needs to be done.

I also sent a copy of a news release to Mr. McHugh's office entitled "Limits on Casein Imports Would Help New York Dairymen." It was a news release by the New York State Senate Committee on Agriculture.

[The material is held in the congressional office files.]

Mr. **Donnelly.** I think it is important to note that casein is a milk protein. We have provided import restrictions to help protect other industries. Why not do the same for agriculture?

It is totally counterproductive to provide agricultural subsidies in the form of support prices while allowing imports to go unchecked.

By doing so, we simply set a price support system for the entire world.

In order to sell their product, all they have to do is be a little bit under our support price, and they can sell it anywhere. It eliminates us from selling in open trade because it is better off for the individual to sell to the Government. Let CCC purchase it.

Also, with the large agricultural production capacity of the U.S. farmers, we must also look at the world markets. Many people here have addressed the problem of the trade embargo, restricting grain being exported to Communist countries. We will sell butter to New Zealand, only to have them resell it to a Communist country at a profit.

These types of situations are not beneficial to long-term contract agreements with foreign countries. They must be assured that we are a stable source of the commodities they need.

In my written testimony, I stated that some agricultural government involvement is needed. A few of these areas are: the Federal and State milk marketing orders. They provide a very much needed service: ASCS and SCS programs. The good Lord only made so much land, and he is not going to make any more. I think we need to look at these programs as conserving and preserving agriculture in terms of soil erosion and air and water pollution.

Another point that is interesting is that we need to protect the farm with import restrictions to competing against us strictly in the dairy.

Import dairy products receive the free ride at the expense of the American dairy farmer. First, there is no 15 cent per hundredweight on these products for promotion. Second, there was no 50 cent assessment charged to these products to help pay for the diversion program, which was an attempt to reduce our surplus.

Another area that I would like to address is Farmers Home Administration. For years, this agency has been misused. First and foremost, I am not in disfavor of FmHA, only that they have gone beyond the original purpose. FmHA programs were intended to get a qualified individual started into farming when he could not receive lending from any other sources.

It was also set up to graduate the borrowers from their low interest rates long-term repayment period to what the commercial lender would offer.

Four problems have existed.

One, FmHA offices have actively competed with commercial lenders for borrowers.

Two, FmHA has actually graduated very few borrowers.

Three, other lenders have actively dumped their poor accounts onto FmHA offices.

Four, FmHA has loaned money beyond the repayment ability of many of their borrowers when refinancing open accounts and other debts.

The solution for Farmers Home Administration is simply to take it back to its original intent. I do not have any questions in my mind that we cannot keep everybody in the farming, but I think we need to set up a Government program that will assure those that are here today that some will be here tomorrow.

Thank you.

[The prepared statement of Mr. Donnelly appears at the conclusion of the hearing.]

Mr. Coelho. Thank you very much.

Mr. McHugh.

Mr. McHugh. In the interest of time, I will pass on questions. Again, let me thank you for being here and for your very useful testimony. We have not been able to devote much time to things like soil conservation, but it is worth noting, as you did, Mr. Donnelly, that these programs are critical. They, too, have been under very severe attack in the budget process. I think that would be a very shortsided thing for us to eliminate or severely reduce soil conservation programs, given the importance of preserving our natural resources.

We have not had time to talk about that much today, but I am pleased that you mentioned that.

Mr. Coelho. I also appreciate the discussion on overquotas. As you well know, the administration could stop all imports of overquota any time they wanted to, if they wanted to aggressively stop it. It would help us out tremendously.

Also, the same point applies to casein. They have the authority to go ahead and make casein a food as opposed to a chemical, and they refuse to do it. But, we will be holding hearings in the subcommittee in regard to those commodities coming in overquota. We will be focusing the spotlight on it, and, as you know, we are trying to do something on casein under our jurisdiction. So, we are moving in those directions.

I appreciate your bringing that up.

Thank you very much, all of you, for appearing.

Now, we would like to hear from Mr. Allen and Mr. Spencer, please.

Go ahead, Mr. Allen.

STATEMENT OF ROBERT W. ALLEN, SENIOR VICE PRESIDENT, CROWLEY FOODS, INC.

Mr. Allen. Thank you.

Mr. Chairman, Congressman McHugh, I am Robert W. Allen, senior vice president of Crowley Foods, Inc. here in Binghamton, NY. Crowley Foods is a diversified foods company specializing in the manufacturing and marketing of dairy foods and specialty food products.

Crowley's dairy products, fluid milk, cottage cheese, yogurt, sour cream, ice cream mixes, and natural cheeses account for almost 100 percent of our total sales. Crowley Foods employs over 550 people in New York State. Over 87 separate dairy product lines are distributed under our name as well as other branded and unbranded labels.

Our company is an active member of the Milk Industry Foundation and Norman Roberts, president of Crowley's, is the treasurer of the foundation.

The policies of the Milk Industry Foundation have been developed by an ad hoc committee of approximately 40 food companies who process fluid milk and have a vital stake in the dairy program and agricultural policy.

The companies on this committee represent every region of the country and range in size from large national chain stores to small independent dairy processing companies.

All of these companies buy, process, and market fluid milk and dairy products and are directly affected by dairy policy. Our dairy policy committee has formulated some guidelines and specific objectives that we think should be included in the 1985 farm bill.

We seek a dairy program that discourages the buildup in Government stocks, one that prevents Government giveaways from interfering with commercial sales, and one that does not distort the market with diversion programs, production quotas, or other similar supply control programs. These policies have been discussed, debated, and adopted by the board of directors of the Milk Industry Foundation, and I commend them to you for your serious consideration.

I would like to give you a business perspective of the Dairy Program and the impact of that program on our company.

We at Crowley Foods, have a direct interest in dairy price support legislation. Crowley Foods manufactures and markets a full line of fresh products, including homogenized milk, low-fat milk, skim milk, cottage cheese, yogurt, half and half, buttermilk, chocolate milk, sour cream, ice cream mixes and hard cheeses. We also produce and distribute natural cheeses and a number of other specialty dairy products. The main ingredient in all these products is pure, wholesome, nutritious milk.

Some people have questioned whether reductions in the milk price support are passed on to the consumer. This is a very competitive industry. To be successful competitors, we must be the low-cost producer of the best quality dairy products. We are constantly reevaluating our plant processes and equipment and reinvesting sufficient funds to achieve maximum efficiency.

Last year's 3.5-billion-pound increase in commercial dairy product sales is sound evidence that a lower support price means increased sales. Commercial dairy products sales increased by almost 3 percent in the last marketing year compared to the year earlier. That increase is, to a very considerable degree, a direct result of reduced and stable real milk prices. With no increase in the milk support price in the past 3 years, the market has responded in the way that it should with increased sales.

It is significant to note that the retail price index for dairy products increased by only 1.6 percent since 1981, when the price support was last increased. For the 5-year period prior to that, when the milk support price was increased twice each year, the same retail price index increased by an average 8.3 percent per year. For the past few years, dairy products have been a good buy relative to other foods, and, last year, the industry saw the first significant increase in sales in the past 5 years. It is clear that consumers will respond to price, so let us market our way out of the problem, not buy our way out of the problem.

The benefits of a stable or reduced price support cannot be passed on to consumers when programs like the Milk Diversion Program are in place. Late last summer and into the fall, for instance, there was a noticeable increase in dairy product prices despite the stable price support.

The wholesale butter price increased from $1.46 per pound to $1.58 per pound last August, and the price of cheese increased from $1.34 to $1.39 during the same time. Those increases were directly attributable to the Paid Milk Diversion Program, which caused the tremendous misallocation of milk supplies in several parts of the country.

In the Southeast, where producer signup for the program was higher than in other parts of the country, handlers and processors were forced to pay tremendous premiums to bring milk in from as far away as Wisconsin and Minnesota to meet the demand for fluid milk.

In New York, we are competing with these handlers and others for milk supplies and all of this resulted in unexpected and sudden higher dairy product prices for consumers.

The sad irony of this is that while we were having difficulties finding milk for bottling purposes, butter, powdered milk and cheese plants in the Midwest were selling surplus products to the Government.

In August 1984, the CCC purchased 1.6 million pounds of butter, 26.5 million pounds of cheese, and 52.3 million pounds of nonfat dry milk, at the same time that handlers had to pay premiums just to get fluid milk.

The Milk Diversion Program did not significantly reduce milk production. It simply misallocated supplies by forcing farmers to feed it to farm animals to qualify for diversion payment, which was based on reduced marketings, not reduced production.

In fiscal year 1984, milk fed to animals or used on the farm increased by 75 percent to 4.2 billion pounds compared to 2.4 billion pounds a year earlier. Milk production during the same period declined by only 1.2 percent or 1.6 billion pounds. Producers did not significantly reduce production, they simply kept it off the market, which allowed qualification for the diversion payment.

I would like to finish my remarks by saying that we got into this surplus problem by putting the price support level too high. We can get out of this problem the same way. That is, reduce the price support to a level where production will be more nearly equal to demand. Let us not complicate things by imposing on the industry diversion programs, quotas, base plans, or any of the other complicated schemes being discussed. Last year's performance with the diversion program showed that it really did not significantly reduce production. Producers, like consumers, are smart people. Producers, processors, and consumers can react to supply and demand situations that allow for a reasonable and orderly market.

Let us leave the price and market forces free to dictate how much milk should be produced and how much the consumer will pay or buy.

Mr. Chairman, that concludes my remarks. I would like to thank you and your entire subcommittee, and Congressman McHugh, for allowing us to appear before you today.

Mr. COELHO. Thank you very much.

Mr. Spencer.

STATEMENT OF ANDREW SPENCER, DAIRY FARMER, ARKPORT, NY

Mr. **Spencer**. I would like to thank you for the opportunity to be here.

I am a dairy farmer from Arkport, NY, Steuben County. That is an error in the print there. I have been an independent shipper for the past 25 years.

I want to go on record that I would like to see less Government nvolvement in agriculture, and I would like to receive my income from the marketplace.

I know that the law of supply and demand works. But, supply and demand cannot work where our Government or foreign governments, use embargoes, trade barriers, subsidies, and various other things that distort the market.

The dairy industry has a surplus problem now, and we are faced with the prospect of being able, in a couple of years, to produce 25 percent more milk from the same number of cows through the use of hormones. I think we have to come to grips with that. We are going to need less dairymen.

The high support price for milk over the last several years is one of the major causes of the current surplus. If, instead of the high guaranteed price for milk, there had been the risk factor from supply and demand, it would not have been nearly as easy to finance dairy expansion.

I have never had the feeling that anybody owes me a market for my products.

I basically support President Reagan's proposed farm bill, but also find I could go with New York State Farm Bureau dairy proposal, which is designed to correct the milk supply/demand imbalance, and maintain a stable industry while substantially reducing Government expenditures for surplus dairy products.

I do not believe overorder pricing through the Regional Cooperative Marketing Agency [RCMA], will ever get off the ground.

The Farmers Home Administration has contributed largely to the problem. My quarrel with FmHA is not who they are closing out, or carrying a little longer, but it goes back to when the loans were made originally. I feel they made loans and set people up in farming, when, realistically, there was no way these people could ever make a go of it.

We do need a means of getting some young people started in farming, but they need to be screened better. Many of the ones who got started never stood a chance, and the Government, through FmHA, did these people a real disservice.

It seemed to me at the time to be insane for the Government through FmHA to be financing poor credit risk people into farming to produce ag products at a time when the Government was already buying surplus ag commodities.

Embargoes were part of the problem. They turned out to be a disaster.

What I would like to see the Government do is:

One, stop running a deficit and start making payments on the national debt.

Two, if all the Government regulations concerning antibiotics and slaughter inspections are in the public interest, then let us make sure imports meet the same health standards.

Three, if we are to compete in the marketplace, we need to neutralize foreign government subsidies and import duties on ag products.

Four, if we are going to be able to be competitive in the world markets, we need to be able to ship by the most economical way.

Five, I believe it is in the country's best interest to store some surplus food.

Six, overhaul the Farmers Home Administration.

Seven, get Government out of farming, either now, or in a definite planned phaseout.

Eight, the strength of the American dollar needs to be addressed.

America has always stood for free enterprise and it is still the land of opportunity.

I thank you.

Mr. **Coelho**. Thank you very much.

Mr. McHugh.

Mr. **McHugh**. Thank you very much.

I know we have at least four people who want to be heard during the open mike part. For that reason I will defer these questions.

We do have to leave in a few minutes for a plane, and I want to be sure we get to the other people. Again, thank you for being here, and for the time you have taken, not only to come but to prepare your statements.

Mr. **Spencer**. Can I address, sir, your question earlier, concerning the diversion and the low payment, and if the farmer has to pay for the diversion, he is not going to be any better off than if he took the lower price support in the beginning. I mean, that is the way it seems to me.

Mr. **Coelho**. Well, if you did not hear the response earlier, that is not true. The assessment for the diversion program is 40 cents, and the price support cut would come down to $10.43, this is substantially different.

Thank you very much, both of you, for appearing.

We now have four requests for the open mike, and we will be happy to have you make these statements. We ask that you limit your statements to a couple of minutes, if possible, so we can hear from all of you, and they will be made part of the record. We will keep the reporter here to record the statements.

So, John Proskine, is that right? Allied Co-Op. Go ahead.

STATEMENT OF JOHN C. PROSKINE, ALLIED FEDERATED COOPERATIVE, NORWICH, NY

Mr. **Proskine**. I speak for Allied Federated Cooperative. I am a producer, member of the Allied board of directors, member of the executive committee, trustee of their insurance program, and also trust officer of the employee retirement program.

Our sole function is to market the membership's milk as profitable as possible. I know neither us nor anyone else can market above the support price set by the administrator with surplus milk floating around the milkshed. One load of surplus milk is used over and over by the processor to keep the milk price in tune with the support or sometimes even below, as is possible in the case of cooperatives.

It does not make any earthly sense to me to take milk that is not needed, haul it to the processor, process the surplus, haul it again to storage and possibly give it to someone that does not want it or throw it out eventually. If some of the surplus is used for the poor and so forth, then to me it is not surplus. We believe the place for surplus milk is back on the farm and not in the marketplace.

I notice on the 1985 farm bill committee, Farm Bureau is an active participant. I have attended many Farm Bureau meetings where the theme has been to get Government out of agriculture. Yet, last week, when one of the major co-ops was in dire need of help, I saw in last week's Syracuse paper, Farm Bureau was the lead in asking the Government for help. The Farm Bureau is not, nor has it, as far as I know, ever marketed a pound of milk or been responsible for a pennyworth of milk.

Many others of the same 1985 farm bill committee are receiving $30,000 to $40,000 or more from the processing sector of the milk business.

I know some of these, plus many others, are taking more money from the outside income than they are from the farm for their own support.

Surplus tends to make their responsibilities easier. It could also enhance their incomes. We believe, again, that the place for the surplus milk is on the farm and out of the marketplace.

The present administration policy of continued lowering of support is devastating to the farm communities.

It forces many of the young, aggressive, highly leveraged farm families out of business. The survivors will be the senior modest debt-laden producers or the Government-financed, sometimes, inefficient producers.

I believe for the future of America, we need the very producers that we are forcing out of business. Many of our towns and counties depend very heavily on the farm and farm-related businesses for the assessments for their tax bases. The advances of biotechnology and genetic engineering will be so dramatic, old remedies of lower support will not work in an acceptable manner.

With these things in mind, we at Allied do support the concept of diversion and supply management where everyone contributes, and I might add 15 months is not long enough to break the cycle.

The benefits are received from the market. The producer gets a livable price. The consumer does not pay for costly oversupply purchases storage and so on.

Thank you.

Mr. **Coelho**. Thank you very much.

Now, Mr. White.

STATEMENT OF ALAN S. WHITE, SULLIVAN COUNTY EXTENSION AGENT, LIBERTY, NY

Mr. **White**. I would like to commend the panel for coming here to New York and talking to New York State dairy industry.

My name is Alan White. I am a Sullivan County cooperative extension agent. My major responsibility is the farm management business of the dairy industry in the county.

I would like to make a few brief comments on the dairy industry in southeastern New York. We have not had very much representation from the counties south of us today. In Sullivan, Ulster, Orange, and Dutchess Counties, which are the counties to the south of us that have a dairy industry, there are approximately 500 dairy farms.

These are almost entirely family farms. Although we are on the top of one of the best milk markets in the country, it is relatively unprofitable to produce milk there. Dairy farming in the southeast is, at this point in time, an unprofitable business, and I would like to give you a few of the figures.

These figures come from a regional dairy farm business management summary. Average farm assets are worth $465,000 on an average dairy farm in our region. Average farm debts are about $130,000. Equity or net worth is somewhere in the vicinity of $335,000 on the average farm. The rate of return on this equity last year was negative 2.6 percent. Cash-flow coverage ratio, which is basically an indication of the money available to pay off all the expenses and debts, was fractional at 0.8, meaning that the dairy farms in this region were unable to pay their bills.

Farm debts for cows in a three-county region was $1,853, which we consider to be fairly high, but not out of line with the rest of the State.

In view of these figures, we feel that we have seen some price reductions. We are looking at another one the first of July. We question whether any drastic action is needed to reduce milk production in New York State at least.

One of the things that we also feel should be mentioned in our area, if we come out with a national policy that does basically overcorrect the problem and we lose more farms than we really need to, one of the things we think should be brought to light in a hearing like this is dairy farms do not come back, especially in southeastern New York, when we lose a dairy farm, it is developed.

We feel this is an important consideration, and any dairy policy that you implement should be gradual enough so that we do not overcorrect the problem.

Thank you.

Mr. Coelho. Thank you very much.

Mr. Kautz.

STATEMENT OF RAYMOND L. KAUTZ, DAIRY FARMER, CALICOON, NY

Mr. Kautz. Mr. Chairman and Mr. Congressman McHugh, I would like to thank you for having me and listening to my concerns.

My name is Raymond Kautz. I am a dairy farmer from Sullivan County.

I would like to address some of the concerns of the dairy farmers in the area of Sullivan County.

We realize that the pricing of milk should be corrected to the surplus and the demand of the milk. There must be a safety net that will not overcorrect the problem.

Pricing should always be based upon the regional—I forgot my glasses today, and I have a hard time reading. The regional demand for milk.

When establishing the future policy—OK.

Mr. **White**. I will read this for him.

When establishing future policy, consideration must be given for a capital investment required to maintain our farming operations in the Northeast. Basically, what he is indicating here is we are talking about an extremely capital-intensive operation.

It will be very helpful to receive payment much sooner than we currently are. As it is currently, we do not know what we are going to receive for our product for as much as 6 weeks. I think here he is indicating that one of the things that may help the dairy industry is if we could go to a more regular pay schedule, like weekly, as one of the things that dairy men would find would help the cashflow difficulties that they face.

One possible solution would be to base pricing on the quality as well as supply and demand. This is one of the concerns that we feel should get some consideration in terms of pricing for quality as happens in just about every other agriculture commodity.

Mr. **Coelho**. Thank you very much.

Mr. Russell.

STATEMENT OF HAROLD E. RUSSELL, JR., DAIRY FARMER, COEHECTON, NY

Mr. **Russell**. I would like to thank you for hearing our testimony here today, and for the sake of time, I will keep it short.

My name is Harold Russell. I am a dairy farmer in Sullivan County.

I would like to address several of the concerns the farmers from my area have addressed. We realize the need to reduce production and increase consumption, but the current debt loads and cashflow, make it restrictive.

From this perspective, many dairy farmers are concerned with FmHA policies. One is how much of our overproduction is caused by Government intervention such as FmMA in their lending policies.

The borrower with no chance for repayment should not be receiving loans. This is also unfair competition for farmers that are in a little bit better shape because they are paying standard interest rates versus FmHA reduced rates, and in our area, transportation is of great importance.

Roads in our rural area are of pathetic shape, and adequate roads and rail transportation are vital to the agricultural industry of Sullivan County, and not wanting to sound like a broken record, tax changes.

I have a question for the subcommittee: Can we revise the Tax Code to make farming less lucrative for the tax shelter farmers? And, on imports, imported dairy products are consuming a share of our market. Many of these countries that import to the United States prohibit importing our products to their countries.

Agriculture has traditionally been one of the few bright spots in our balance of trade, but if we do not curb imports, agriculture will go the way of our auto industry.

And, in closing, I would like to say 5 or 6 years ago, we had the honor of Congressman McHugh visiting our farm, and I hope I am still there in 5 or 6 years for you to visit again.

Mr. McHugh. I certainly hope you are, too. I think it has become clear how difficult a situation our dairy farmers are facing.

We know that intellectually when we read our mail and when we study these issues, but there is a quality factor to these hearings in terms of peoples' sense of urgency and sense of frustration and sometimes sense of desperation which comes through.

That is why it is so important that you take the time to be here and that we listen carefully and feel some of what you are feeling. It is for that reason that I am so pleased that Congressman Coelho could come all the way from Washington/California to be with us. He is a sensitive person, and I know he will take back with him the things that you have all told him as well as me.

I know we have to catch a plane, but I do want to take the opportunity again to emphasize my appreciation to all of you and especially to Tony Coelho for being here with us.

Mr. Coelho. I appreciate all of you that have participated in the open mike, and I also want to thank Matt for inviting me to come here and to have these hearings.

As I indicated earlier, these hearings are at a critical time as we are now in the process of trying to finalize the bill. It will be done a week from Tuesday. You can be sure that many of the comments which you made here today will be incorporated into the full committee draft.

As I have indicated to the group that we met with this morning, I am quite concerned about some of the problems that do exist here in the Northeast, and I intend to come back between the markup and the full committee before we go to the House floor, to talk to some of the groups up here in the Northeast about some of the problems and see if we cannot address some of them.

So, these hearings have been very beneficial to me and you can be assured that they will be beneficial to the full committee.

Again, I thank Matt for having me here, and these hearings are now adjourned.

Thank you.

[Whereupon, at 5:45 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

TESTIMONY FOR DAIRY INDUSTRY HEARING

My name is Gerard Bourgeois, with my son Brian I operate a dairy farm in the Town of Morris,Otsego County, N.Y. We sell over one million lbs. of milk and in addition sell hay and HMC. I appreciate the opportunity to testify before this hearing held at a very distressing time for the dairymen of our area. Political action in the near future may well determine the existence of our type of family owned and operated farm in this country.

I am one of the farmers attempting to organize ATLANTIC DAIRYMEN, a group of dairy farmers trying to provide a voice for actual hands-on dairymen in the Northeast. We feel that several issues need to be addressed at the Federal level if dairying in our area is to have a chance to compete for the market.

1. The 15 year old freight differential levels need to be adjusted upward to reflect actual cost of moving milk. M and W pricing should not destroy our markets.

2. The present CCC purchase system needs to be overhaulded in favor of a plan similar to the MARTIN PLAN which is supported by Atlantic Dairymen. This would free dairymen from the support price; provide incentive for industry wide responsibility for levels of production; provide stimulus for processors to compete for commercial markets, and relieve dairymen and taxpayers of the burdensome surplus situation. It

It would also end public provision of an automatic market for anyone wishing to move into the industry.

3. The LOUISVILLE PLAN needs to be updated to properly re the 20 year period of strong inflation (1960-1980) which made its seasonal price incentives ineffective.

4. NYS milk licensing laws must be recognized for what they are, a barrier to interstate trade, and taken off the statue books.

5. The DAIRY DIVERSION PROGRAM which operated to the disadvantage of traditional dairy areas and to the advantage of the South and West must not be re-imposed on the dairy industry.

6. Proposals which attempt to adjust the price support system downward and do not address any other aspect of the problem will not operate in the best interest of either dairymen or consumers.

7. If these problems above are not addressed the Northeast Dairy Industry will have no choice but to scrap the federal system and set up a regional system aimed at both survival of the dairy industry and supply to our consumers a top quality, competitively priced products.

8. USDA should investigate the operation of Dairy Co-ops in the Northeast. These organizations have caused irreparable financial harm to many farm families.

Thank you for the opportunity to take part in this hearing.

Gerard Bourgeois

June 28, 1985

Donnelly

Issues To Be Addressed in 1985 Farm Bill

The Government's involvement in agriculture at this time is very extensive. I feel that some involvement is needed and yet I agree with the idea of phasing the government out of the price supporting programs for all agricultural products, thus returning the prices paid to farmers back to the law of supply and demand.

The issue I wish to address deals with Agricultural imports.

At the present time American farmers are faced with unrestricted agricultural products being imported into this country with the U.S. Government picking up the tab through displaced domestic products purchased by the C.C.C.

I'm not only talking about dairy products but all agricultural products including beef, pork, vegetables, potatoes, honey and dairy products.

It's also interesting to note that even when a product does have an import quota placed on it that these quota levels are exceeded. I would refer you to the copy of an article appearing in the October 10, 1984 issue of Hoard's Dairyman page 1146 EIGHT PRODUCTS OVER QUOTA, which simply states that eight dairy products were imported over quota.

The economics involved with limiting agricultural products being imported would greatly benefit the United States.

1. Dollars spent on imports do not recirculate within our own economy.
   On the other hand dollars spent on domestic agricultural products - DO recirculate within our own economy. For such things as agricultural production inputs (feed, fertilizer, machinery, labor, capital, chemicals, and many more), production output (processing, distribution, marketing, research, new product development, labor) and personal disposable income. It is estimated that agricultural dollars have a multiplier value of 5 times, and that one of every five jobs are related to agriculture.

   It is important to note that agricultural income is not only spent on agricultural products, be they input or output, but also on shoes, clothes, entertainment, cars, stereos, T.V. and other consumer goods.

   In limiting imports we can then increase the demand for domestic products and bolster our economy.

2. Limiting imports increases demand of domestic products and reduces the surplus which presently is being purchased by the C.C.C.

3. Many experts claim that most of the dairy products being imported are specialty items which do not affect domestic sales.

   The answer to that statement is to import the technology to manufacture those specialty items here in the United States. Therefore, not only creating demand for dairy products but also creating jobs in the manufacturing, distribution and marketing sectors of the economy.

4. Reclassifying casein as a dairy product, which is now classified as a chemical and is not subject to any dairy import rules, restrictions or fees. Yet casein competes with milk for use in frozen pizza, convenience foods, whipped toppings, coffee lighteners, and more.

   I would once again direct your attention to an article that appeared in the March 25, 1985 issue of Hoard's Dairyman, page 360, CASEIN IMPORTS SURPASS NFDM PURCHASES.

   At the present time Congressman Toby Roth of the 8th District of Wisconsin is sponsor of bill HR 431, The Milk Protein Fair Trade Act of 1985, which would limit the amount of casein that may be imported into this country. I feel this is a start in the right direction, and more needs to be done.

   Enclosed is copy of a news release from New York State Senate Committee on Agriculture - "Limits on Casein Imports Would Help N.Y. Dairymen". It's important to note that CASEIN IS A MILK PROTEIN.

We have provided import restrictions to help protect other industries. Why not Agriculture?

It is totally counter productive to provide agricultural subsidies in the form of price supports while allowing imports to go unchecked. By doing so we simply set a price support system for the entire world.

Let's give the American farmer the opportunity to feed the American people without imports.

With the large agricultural production capacity of U.S. farmers we must also look at the world markets. If the U.S. is to gain back its share of the world's market in agricultural products, farmers cannot be restricted in trade to other countries. We can not: afford grain embargoes, selling butter to New Zealand only to have them sell it at a profit to a communist government. These types of situations are not beneficial to long term contract agreements. Foreign markets must be assured that we are stable sources of the commodities they need.

I stated that some government involvement in agriculture is needed. These areas are:

1. Federal and State Milk Marketing Orders - They provide a very much needed service and are paid for by the farmers.

2. A.S.C.S. and S.C.S. Programs. These two U.S.D.A. agencies provide programs for the preservation of agriculture through maintaining and improving our natural resources of soil and water. Preservation of our farm land by reducing soil erosion and improving water and air quality by controlling agriculture pollution, is necessary not only for agriculture today but also for generations to come. The good Lord is not going to create any more land, therefore, we need to use what we have very carefully to protect it for years to come.

3. Protect the American farm with import restrictions from having to compete against foreign countries' subsidized agricultural products.

Imported dairy products receive a free ride at the expense of the American Dairy Farmer. First, there is no $.15 per hundred weight charge on these products for promotion, as is the case with all milk produced in the United States.

Also, imports were not subject to the $.50 assessment per hundred weight which was used to fund the Milk Diversion Program. This program was an effort to reduce the surplus production, yet imports displace domestic products helping create the surplus.

4. Farm and Home Administration. This U.S.D.A. agency has been misused for years.

First and foremost, I'm not in disfavor of FmHA only that they have gone beyond the orginal purpose. FmHA programs were intended to help qualified individuals enter a farming profession, only if they could not obtain credit elsewhere (therefore not competing with commercial lenders). This program was fine but should not have been extended to a program of refinancing established farmers and refinancing their present borrowers. The original program was set up to graduate the borrowers to commercial lenders once the individuals were established and able to pay the higher interest rates.

Four problems have existed:

1. FmHA offices have actively competed with commercial lenders for borrowers.
2. FmHA has actually graduated very few borrowers.
3. Other lenders have actively dumped their poor accounts onto FmHA Offices.
4. FmHA has loaned money beyond the repayment ability of many of their borrowers when refinancing open accounts and other debts.

The solution to this problem would be to revert FmHA back to its original purpose and make them a one time lender to the individual.

There is no question in my mind that we can not keep all farmers in business, some will forced out and some should be out of business. There are some inefficient managers who actually lack the management ability to remain in business in the long run.

Government programs should not be designed to keep all farmers in business and guarantee them an income. And shauld be designed to correct the supply and demand situation of agricultural products in a relatively short time period.

Therefore, preventing a slow death for all those in agriculture.

We need to destroy the idea of cheap food for the consumer. In order to strengthen agriculture we must have higher farm prices. This is possible two ways through taxes and a farm subsidy program or higher prices in the market place due to a free market with supply and demand in balance.

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July 1, 1985

Rep. Tony Coelho, Chairman
House Agriculture Subcommittee
on Livestock, Dariy and Poultry
Cannon Suite 403
Washington, D.C. 20515

Dear Congressman Coelho:

I was unable to attend the House Agriculture Subcommittee hearing held in Binghamton on Friday, June 28. However I would like the following included in the testimony.

As owner and operator of a family size dairy farm, I urge you to strongly press for passage and implimentation of the bill to limit importation of casein. There is probably nothing Congress could do that would help our dairy industry any more than the passage of this bill.

It would also help greatly if our government would enforce the import quotas now in existence on dairy products. For the last few years U.S.D.A. has allowed imports over quotas on such items as, American cheddar cheese, blue mold cheese, butter, frozen cream, nonfat dry milk and evaporated milk.

In 1983 according to table 32 in the June 1984 U.S.D.A. publication Dairy Outlook and Situtation, Butter was allowed in at about 2½ times the quota and evaporated milk at about 6 times the quota. This seems ridiculous to me, when at the same time the U.S. dairy farmer was being penalized 50¢ per hundred weight for too much surplus, and 15¢ for advertising, and the imports were allowed in without paying either.

It appears that our government takes a tougher stand against the American Farmers, (who have been the back bone of this nation,) than they do with airline hijackers.

Yours truly,

David J. Taylor

David J. Taylor

GENERAL FARM BILL OF 1985

(Livestock, Dairy and Honey, Including Meat Import Standards)

FRIDAY, JULY 26, 1985

House of Representatives,
Subcommittee on Livestock, Dairy, and Poultry,
Committee on Agriculture,
Sioux Falls, SD.

The subcommittee met, pursuant to notice, at 9:30 a.m., in the Cattle Arena, Sioux Falls Stockyards, Sioux Falls, SD, Hon. Tony Coelho (chairman of the subcommittee) presiding.

Also present: Representatives Bedell and Daschle.

Staff present: Kim Schnoor.

OPENING STATEMENT OF HON. TONY COELHO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. **Coelho**. We will now proceed with the hearing.

If we could have the first panel of witnesses come up; Mr. Leland Swenson, Mr. LuVerne Jensen, and Mr. Kenneth Eckmann, if you will please come up so that we can start the hearing.

As I said during the press conference, the purpose of these hearings is for us to meet with the people in South Dakota to find out what is on your mind in regard to livestock legislation. We are now in the process of finalizing a bill, and we will be marking it up in full committee on Tuesday of next week.

After we complete that markup, we will then go to the House floor probably the first week of September, so that we are right in the critical stage of legislation. So it is a pleasure for me to bring out the subcommittee so that you can have an input on what we are doing or not doing.

So if we can begin our hearing, unless, Mr. Daschle, would you care to say anything?

Mr. **Daschle**. No, that is fine.

Mr. **Coelho**. Mr. Bedell.

Mr. **Bedell**. No.

Mr. **Coelho**. Mr. Swenson, you may proceed.

STATEMENT OF LELAND H. SWENSON, PRESIDENT, SOUTH DAKOTA FARMERS UNION

Mr. **Swenson**. Mr. Chairman, my name is Leland Swenson and I am president of the South Dakota Farmers Union, our State's largest farm and ranch organization.

I would like to thank the chairman and members of the subcommittee for scheduling this important hearing in Sioux Falls. If we are to reverse the present disastrous state of farm economics, we must take advantage of every opportunity to get our message to Congress and to the general public.

I would also like to take this opportunity to commend Congressman Daschle for his proposed legislation requiring livestock imports to conform to the same health and sanitary standards as those required of our domestic producers.

The Farmers Union strongly supported Gov. William Janklow's recent ban on the importation of livestock treated with the antibiotic chloramphenicol, excuse my pronunciation of it. We also applaud similar action by Iowa Gov. Terry Branstad, and Nebraska Gov. Bob Kerrey.

This position represents a longstanding policy position of the South Dakota Farmers Union. The following statement was reaffirmed by delegates attending our 1984 State convention in Huron, SD, and I quote: "We demand that all agricultural products imported to this country such as meats and dairy products be required to meet the same standards of sanitation required of American agricultural products and labeled as to country of origin," unquote.

However, the real issue goes beyond health standards for agricultural imports. I do not think there is any question that livestock imports have had a detrimental impact on market prices for livestock here in South Dakota and in other States. Governor Janklow has made no secret of the fact that concerns about health standards on Canadian livestock were only a pretext for a more general effort to improve hog prices by banning imports.

While we recognize that imports do have their impact, we must resist the temptation to blame all of our problems on imports or exports. We must resist the temptation to blame Canadian farmers for low hog prices or the farmers of the European Economic Community for our grain export problems.

More than 50 years ago, Emil Loriks, a great cooperative leader and former South Dakota Farmers Union president, told a story about a pack of hounds that was released in a pasture. The hounds immediately began chasing rabbits. First they would chase one rabbit, then another and another. Pretty soon the hounds were exhausted. They never did actually catch even one rabbit.

I think Congress needs to stop chasing rabbits and zero in on the most important objective, passing a strong 1985 farm bill. That farm bill must include price support levels high enough to assure that the hard-working American family farmers receive a level of compensation for their production that is fair, just, and commensurate with their important contributions to the health and survival of this Nation. The program must also include reasonable limitations on the amount of benefits available to any one farmer or rancher, it must include strong soil conservation features and it must provide equal and fair treatment to all farm commodities.

We are frustrated with the dairy industry's ability to revive the paid dairy diversion program, which expired in March. New legislation to give dairymen money for selling their cows to reduce agriculture crisis and a death sentence for many family farm and ranch operations, rural businesses, and communities. I urge you to resist the desire of this administration to destroy the farm program concept that if properly implemented and managed could tremendously benefit rural America.

The time has come for us to put a halt to what appears to be a very popular and nonproductive pastime: bashing farmers in Europe, Canada and elsewhere. The solution to the problems of the American family farmer and rancher lies in the adoption of a program that provides a fair price for his production—not in increasing exports by lowering prices. And certainly not in efforts to drag our fellow farmers and ranchers overseas down to our own level of agricultural disaster.

I might remind you that the national farm parity average on all agricultural commodities has been at 52 percent of parity for the past 2 months. That is the lowest level in U.S. history. It is lower than the previous record set late in 1932. The parity level has also remained below 60 percent for more than 45 consecutive months—the longest such period in history.

Thousands and thousands of family farmers and ranchers are out here today just hanging on by their fingertips. They are looking to Congress as their last hope of economic survival.

The problem of livestock imports—that is the subject of today's hearing—is just one chapter in the long tragedy that is now being written across the face of rural America. That book does not have a title; the final chapter has not yet been written. Congress has the ability to provide a happy ending or Congress can assure that the name of that book will be "Gone With the Wind."

Thank you very much.

Mr. COELHO. Thank you, Mr. Swenson.

Mr. Jensen, please.

STATEMENT OF LuVERNE M. JENSEN, PRESIDENT, STATE OF SOUTH DAKOTA, AMERICAN AGRICULTURE MOVEMENT

Mr. JENSEN. Mr. Chairman, Members of Congress, my name is LuVerne Jensen; I am from Erwin, SD. I own and operate a livestock and grain farm. I welcome this opportunity to testify before this subcommittee. I have four suggestions which I feel will help the livestock industry:

One, expand the wool program to cover all livestock.

Two, to have an inspection and labeling of all meat imported.

Three, to limit the tax loss of off-farm income to $20,000.

Four, and probably the most critical is stop all imported meat when the domestic price falls below 100 percent of parity.

All of these suggestions are good, but No. 4 is the most important of all, and if Congress would pass a law to stop all imported meat when the domestic price falls below 100-percent parity, the first three of these would not be needed.

This would also solve the problems with our surplus feed grains. The farmers and ranchers really do not care how much meat is imported as long as they can make a profit on what they produce. Some of these suggestions are not new ideas. The South Dakota Meat Promoters have been trying to get a meat inspection and labeling bill passed for several years, and Senator James Abdnor, as

I understand it, is now working on a bill to limit the tax loss of off-farm income to $20,000.

I know this is very brief, but I will try and answer any questions, and I would like to just say a little bit, but following Lee Swenson, it is hard for me as a farmer to come up and put words on paper. I'm a lot better at talking and answering questions than I am at putting it down on paper, and I thank you very much for this opportunity.

Mr. COELHO. Well, Mr. Jensen, I think you do very well as you presented your statement. Do not worry about that.

Mr. Eckmann.

STATEMENT OF KENNETH C. ECKMANN, PRESIDENT, SOUTH DAKOTA NATIONAL FARMERS ORGANIZATION

Mr. ECKMANN. Thank you, Mr. Chairman. I am Ken Eckmann, farmer and rancher, Iroquois, SD, president of the South Dakota Chapter of the Farmers Organization.

Economic conditions are deteriorating very rapidly in agriculture. There is a lot of emphasis being put on an economic transition by those who speak about agriculture. Now the transition that is being emphasized is the transfer of land from private ownership to corporate investors with absentee owners.

Such a transition would cause the destruction of the farmer-owner-operator system in agriculture that we have known for many years.

The theory that we need less farmers is simply untrue. Farmers and ranchers as owners and operators are being challenged, and we must meet the challenge either through an effective 1985 farm bill or intensify bargaining at the marketplace.

First and foremost, we cannot accept any measure which would result in lowering farm prices. Quite frankly, those who advocate lowering the loan rates in the behalf that this will enable our products to be more competitive in the world market are perpetrating a cruel hoax on America's farmers. We cannot effectively increase net farm income for exports by selling our products at prices far below the cost of producing them. We simply cannot export our way out of the current economic difficulty by selling at rock-bottom prices in a buyers' market, nor can we continue to rape our fertile American soil just for the purpose of disposing our valuable raw materials in an international trade war.

Mr. Chairman, it is my understanding that the House Agriculture Committee has tentatively agreed to include two sections in the 1985 farm bill, setting up mandatory checkoffs on all cattle and hogs for each search and promotion activity. We are opposed to inclusion of these features in the 1985 farm bill. In each case, No. 1, there is no provision for refund upon written request by the producer, a feature that has been traditionally the most ordered of this type; No. 2, producers cannot even vote on the proposition for 2 years, and No. 3, provisions for controlling committee boards and so forth are designed to hand off to the sponsoring organization or its nominees the control of huge amounts of money.

The rates are proposed at 30 cents per $100 on the sale of hogs and $1 a head on all cattle. Total cost of these two propositions are estimated to run up to $150 million annually.

We remind you that 10 or 12 States already have hog checkoff laws for this type of activity and that the cattlemen have twice turned down such a proposition in a national referendum. The first vote failed to carry by a simple majority. In our opinion it would be unwise, yes, downright foolish for Congress to set up opposing advertising programs at the expense of the two principal red meat promoters producer groups. Little or nothing can be gained; a great deal can be lost.

The House committee has included in its bill a directive to the Secretary of Agriculture to purchase 200 million pounds of red meat for section 32 use at any time a milk diversion program is implemented. We support this provision, but enough is enough. We ask you not to introduce or support in any manner these two proposals that have not been properly subjected to an open hearing and objective analysis.

Some of our producers may support certain types of promotional activity, but none of them like to be railroaded in the style undertaken in these instances.

In closing, I would like to thank the subcommittee for the opportunity to testify on behalf of the National Farmers Organization and the many hard-working farmers and ranchers of South Dakota.

Thank you.

Mr. **Coelho**. Thank you very much, Mr. Eckmann.

Mr. Bedell.

Mr. **Bedell**. Thank you, Mr. Chairman.

I want you to know that when Tony Coelho has a hearing, you can expect a high voltage hearing.

Mr. Jensen, you indicated your support for the proposal that the deduction for farm losses be limited to $20,000. Do you believe that nonfarmers who use farming as a tax loss should be able to deduct up to $20,000? My question is, Why should they be able to deduct anything?

Mr. **Jensen**. Well, that is part of it, but I guess to cover over the farmers that have wives working off the farm—for instance, my wife works off the farm, and she has not got a very big paying job. But that money, I can deduct, and I think it should be up to $20,000, if they are going to put us in this kind of a predicament.

But if I have a $250,000 job, I do not feel that I should be able to go into farming and take that as a tax loss.

Mr. **Bedell**. So you would agree that if your major source of family income is not farm income, you should not be able to deduct farm losses from your income. Is that correct?

Mr. **Jensen**. Right; definitely.

Mr. **Bedell**. OK, thank you.

Mr. Swenson, you said in your statement that we must resist the temptation to blame Canadian farmers for low hog prices or the farmers of the European Economic Community for our grain export problems. Do you believe those do not——

[Electric power is cut.]

Mr. **Coelho**. Let me just make a statement for the audience so that you know what is happening. When the electricity goes out, the official reporter cannot take notes, and as this is an official hearing of the U.S. House of Representatives, we have to have a reporter here. So every time the electricity goes out, we must stop the hearing. So I hope you will bear with us as we try to solve our problem there.

Mr. **Bedell.** My question was, Do you believe that the subsidization of hogs in Canada or the subsidization of grain in Europe do not contribute toward our problem?

Mr. **Swenson.** The level of support of both the Canadian farmers and——

[Electric power is cut.]

Mr. **Coelho.** OK.

Mr. **Swenson.** The support that the Canadian hog producers as well as the agricultural producers in the European Community receive are price supports to return them a level of profitability for their production. Where we have destroyed the productivity to the profitability of agriculture in this country is by lowering our price supports and making the farmers in this country have to pay out of their profit the differential and the value of the dollar in the export market at the farmer's expense, and the farmers did not create the difference in the value of the dollar in dealing with exports.

In dealing with Canada, the Government of Canada deals with export policy and import policy. In the European Economic Community, the European trade group representing the farmers and the government deals with the trade policies.

In this country, the policy of exports and imports is dealt with by the grain trade or the private sector, not by the Government, and so what we have happening in this country is our farmers become the tail that keeps getting away, and we keep getting depressed and depressed and depressed for the sake of so-called meeting foreign competition, and we are challenging the governments, not the private producers.

And what I am saying is we should not try to drive down the prices being received by the farmers in the European Economic Community, because they have enough political clout in that country to get price supports that return their profitability. It is time we had that same return in this country and have profitability among our eight producers.

Mr. **Bedell.** I am glad you made that statement, because the European Economic Community provides a decent price for its farmers. Then they have a tariff equal to the difference between world prices and their domestic prices, and a subsidy of the difference between their prices and world prices for their exports if they have too much.

What we have said is that we are not going to do that in this country. We are going to expect our farmers to compete without that same type of protection, and at least in my mind, that is absolutely ludicrous, and the least we ought to do is say, If Europe is going to have that kind of policy, then does it not make sense for us to follow something similar where we see that our farmers get a decent price for their products as well?

You do not disagree with that, I take it.

Mr. **Swenson**. No; we are beginning and are destroying the structure of our agriculture by encouraging bigness, and in the European Economic Community we are trying to drive their prices down to encourage them to do the same thing. And it just does not make sense why we should drive their producers down to our level. I am not against taking their government on and meeting the export and import ball game, but not at the expense of the American farm producer himself. We have never entered a war in this country's time, be it the Vietnam war, be it World War II, be it World War I, that was financed by one segment of the economy, and here we are asking to enter into a trade war, an international trade war, and have the agriculture producers in this country pay the total bill, and I think it is just unacceptable as far as I'm concerned representing agricultural producers.

Mr. **Bedell**. I thank you for your statement.

I thank you all for your statements and I certainly think it is very well said. Thank you.

Mr. **Coelho**. Mr. Swenson, I might just ask you to comment about that. I agree with you, but if agriculture sits back and says "We are not going to fight that war," and nobody else wants to fight that, are not we and agriculture getting us destroyed because of our unwillingness to get out there and do it if nobody else will do it?

Mr. **Swenson**. I am not saying that we will not support fighting the war, but we shouldn't have to finance it.

Mr. **Coelho**. I agree with you, but my point basically is that we in California are prepared to finance it, fight it, do whatever has to be done because we are getting destroyed. And if we have to wait for this administration in particular to join us in that fight, we are going to be destroyed before we get somebody else to help finance it. We might as well try to do it now on our own, and at least to get into battle, because you're not educating the American public by not engaging. Until you engage, you are not going to get there.

Mr. **Swenson**. If you are being destroyed by prices now that cannot pay the bills, how can you finance any more wars? You are going to destroy yourself. You know we do not have to worry about being destroyed from the outside. We are destroying the agriculture structure in this country internally.

Mr. **Coelho**. I guess maybe we are young and foolish out in California. We would rather fight going down than just take it laying down.

Mr. **Swenson**. Yes, but we look at all the other policies of trade that we are involved with—the arms financing that we finance throughout the world. We do not do that at 50 percent of the cost of building those arms. We do it at twice what it costs or three times the cost.

Mr. **Coelho**. No argument on facts, no argument on principal. It is only a question of tactics, and we in agriculture are getting destroyed in this process. And the question that it gets down to is whether or not agriculture has to get aggressive and that may mean we have to pay a little more to get aggressive, but in order to do that, we have got to educate the American public to understand what is going on so that they can then insist with this administration that something be done.

But what is happening today is that we are being destroyed in agriculture. We are getting killed, and it is Canadian pork. It is a situation in California which does not impact you here, but Turkey has taken apricots from Iran that cannot come into United States from Iran, but are taking apricots from Iran and taking them through Turkey and then shipping them over here, and half of my apricot industry is over. Through.

Now my apricot people say, "Look, Tony, don't wait. Let us do it now, because we are out of business if you wait."

And so I happen to agree with you. I think you are absolutely right. But I question whether or not we have the time to sit back and say, "We are not going to fight until." I am not sure the "until" is there. We do not deal, but——

Mr. BEDELL. I think there is a misunderstanding. I think you both agree that we need to be aggressive, but I think Mr. Swenson is saying that agriculture is in such a state today that you can hardly expect our farmers to bear the whole burden of the whole cost. I think that's where the difference is.

Mr. SWENSON. That's exactly right. We need to aggressively address the problem of imports and exports, and we need to aggressively address the export value of the dollar prices that we are facing. The question I ask is, Are we asking the agricultural sector to pay the price totally. And if we're advocating within the farm bill that passed the House Committee yesterday, of a 5-percent decrease in price supports with the option of the Secretary to lower it an additional 20 percent, farmers cannot afford a 25-percent decrease in the loan price support. We are not going to survive, and if that is what Congress is looking at to finance the trade war aggressively, we are going to destroy production agriculture. We are going to turn it over to the corporations.

Mr. COELHO. I have to agree with you, but I think what my farmers are saying out in California, basically, is that you are destroying us in a price war, that you are going to wipe us out. You are legislating bankruptcy, basically, against what the administration is trying to do.

But what they are saying is, "We're going out of business, so let us get in and fight this now." And that is where it may be a difference in tactics, but that is all.

Mr. SWENSON. I agree 100 percent with that.

Mr. DASCHLE. I think that what you are saying is that we cannot unilaterally disarm in the international economic battle that is going on right now. For us to take away a farm program just at the time that the stakes are getting higher and higher in the international arena is like sending a soldier into war without a rifle. You cannot take away the weapons by which we can compete both internationally and domestically with that incredible economic enemy that we have got right now. And we have got to have the muscle, we have got to have the weapons, we have got to have the tools necessary to be competitive and that is what we are talking about here.

I would like to ask one question. Given the number of witnesses we have, there are many more that I would like to pursue, but I think it is important for the record for the three organizations to comment on something that is very disturbing to me in Washington right now.

About 2 months ago, a report was issued that indicated that agriculture was still viable and that only 5 percent of farmers were refused any credit this year, and as a result, 95 percent of those farmers who were having difficulties got credit, and so the problem is not nearly as bad as it was made out to be last winter or last spring, that the situation has probably gotten much better and that this whole thing has blown over.

I want you to comment on that. I happen to vehemently disagree with that, but I think it would be important for you to give us a picture. Is it true that farmers are no longer in a credit crunch, and, second, has this whole thing blown over in the minds of most farmers in South Dakota?

Mr. **Jensen**. OK, I will start on that, because I am glad you asked that question, Tom. We have got a problem and it might be in about 30 days out there. When these guys get done compounding that $1 oats and that $1.15 barley and looking at $2 corn and they go in to their banker and a lot of them will not even be able to pay their interest let alone put anything on their payments, we are looking in our area that by spring perhaps there is going to be 50 percent of those farmers selling out. Those bankers are holding the notes on that machinery; their tractors and their combines are going to sell for 10 cents on the $1 or less. Then the banks are not even going to be able to get their money back. This problem is here, it has got to be solved and the only thing that is going to solve it is a 1985 farm bill.

I know that our banker up there, my banker, thought this spring would make up this money out there and they were all talking a decent farm bill, and he loaned money on the assumption that there was going to be a decent 1985 farm bill and it perhaps was going to take him 2 or 3 years to get his money back, but he figured he was going to save that farmer.

He is an independent banker; he is not a big commercial banker, and this thing is horrible out there, and I cannot stress that enough.

Mr. **Eckmann**. I will have to agree, and I am also glad that you asked the question. We hear this, too, that rural America is not suffering as they were last winter, because of the consumer, the people in the urban communities have seen an activity throughout the heartland of this great Nation.

We feel that at the very least, 25 percent of our active farmers will go by spring. Now it does not stop there, gentlemen. We are looking at rural America, the business places this past month, because of an effort that we are going to be undertaking in the NFO within the next few short weeks. We have talked to many, many businessmen, businessmen here in Sioux Falls, SD, and in every small town. The problem is the same; businessmen hoping just to keep afloat.

I visited with the Governor of South Dakota, Governor Bill Janklow. Asked him what he foresees. The same held true there. There are small towns that are going to go. That means our churches, that means our schools. We're going to gut America.

The financial crisis in the cooperative banks, the old home banking structure—serious trouble. Men and women that were depending on stocks that now have been frozen in Federal loan debts, interest rates that were raised, liquid people transferring indebtedness with a healthy organization to other organizations leaving even a far more serious program in the Federal buck ranking system.

Now the problem is still here and it is getting worse. It is like the snowball. It starts small and it gets larger, and that is where we are at today. It has not improved.

There is one extra comment that I would like to say. There are a lot of farmers here, and I talked to a lot of farmers. They feel that the consumer in many cases is against him. I went to Minneapolis just 3 weeks ago, and I found businessmen there asking me when I introduced myself, they said, "Hey, what are you going to do about the farm problem? We do not want our food supply turned over to corporate structure."

So with that kind of support, I do not know what is holding the program back of giving something decent to the people that need it.

Mr. SWENSON. Just one quick comment, as I talked enough earlier. Dealing with the crisis, you can look at a couple facts in the State of South Dakota. If you take the period of October to June, this last October to June, compared to the period of October to June of the previous year. The Farmers Home Administration in South Dakota this last period, served 12,500 operators within the State of South Dakota. The previous period of time a year before that, served 11,800 and some. So it was an increase of approximately 700 operators, and it was more than that if you take into consideration the number that they discontinued serving.

The guaranteed insured operating loan moneys increased over 100 percent, right in the area of 113 percent, in this last year compared to the previous year. It was at $54 million in October to June 1983 to 1984, and it went over $100 and some million in 1984 to 1985.

In the Emergency Loan Program it increased in South Dakota from $2 million to $35 million. So, Tom, the reason that we did not have that massive loss is they made more money available. All it has done, it has not helped the crisis. It has added more debt that has to be surfaced, and when you look at the prices today compared to 1 year ago, the crisis is going to be a nightmare very, very shortly.

So the situation is here, Tom. It has not deteriorated. The other night on TV in Minnesota, they were having massive sales of equipment that have been foreclosed on, and the president of the implement dealer said they are losing two implement dealers a week in the State of Minnesota.

So it is more than just an egg producer's crisis, it is a crisis that is affecting every rural community and rural business in this country, and I agree with what Mr. Eckmann said that the mood of the country, the consumer, is not antifarmer. Now where we have it is in what seems to be the representatives from other areas of the country that do not perceive the problem to be real, and that is too bad. It is frustrating.

Mr. BEDELL. You do not think the administration is part of the problem?

Mr. SWENSON. Oh, yes. Very much so. Very much. And I wanted to share with you before we left, the three organizations here are part of the farm alliance that we formed a year ago in the State of South Dakota that involves eight organizations now: the Catholic Rural Life, Sioux Falls Dynasty, the Farm Crisis Committee, the Independent Stock Growers, the South Dakota Meat Promoters, and the South Dakota Farm Borrowers are organizations along with us three. And we have unanimously agreed on the type of farm policy at the Federal level we would like to see, and I just wanted to share that with you to show that we are getting together in rural America, even if we represent different organizations.

Mr. COELHO. That is great. I appreciate those comments, and I guess that the three of you on behalf of your organizations are saying that in response to Tom's question, the farm crisis is worse today as opposed to last year, contrary to what the public perception is.

Mr. SWENSON. Right.

Mr. COELHO. Thank you very much. I appreciate your testimony and your participation in this hearing.

The next panel will be Mr. Rasmussen and Mr. Daniel.

Mr. Rasmussen and Mr. Daniel, please.

Our intent, depending upon how we progress along in the hearing, is that at the end of the hearing, to open the mikes to the people in the audience so they might be able to make a short statement or ask a question. We obviously will not be able to permit everyone in the audience to do this, but we would hope that if you have something that you feel we should know about, we would hope that we will be able to finish in time so that you can participate and be a part of the official proceedings here today.

Mr. Rasmussen, you may proceed.

STATEMENT OF ODEEN "SKEE" RASMUSSEN, VICE PRESIDENT, SOUTH DAKOTA STOCKGROWERS ASSOCIATION

Mr. RASMUSSEN. My name is Skee Rasmussen. I am a rancher in western Mellette County, and also vice president of the South Dakota Stockgrowers Association.

Mr. Chairman, members of the subcommittee, ladies and gentlemen, I am at this hearing at the invitation of Congressman Tom Daschle. My understanding is this subcommittee hearing is for the purpose of hearing from the grass roots and the House Agriculture Committee's work toward decisions on what the House of Representatives will be recommending for the 1985 Federal farm bill.

I would like you to know that each item in my presentation has been approved as a resolution by the nearly 2,000 producer-members of the South Dakota Stockgrowers Association that I represent. We are glad to participate. The statewide organization that I represent is made up of cattlemen, most of whom are cow/calf operators and yearling operators. We make our living running farms and ranches that depend on grass, hay, water, cattle, the weather, prices we receive, and the expenses we pay.

The cattle business is South Dakota's largest industry. In many ways, South Dakota is a large grass feedlot for millions of cattle, hogs, and sheep.

We have heard a great deal about the farm crisis, particularly for the last 2 years. People have turned their attention to the political arena and what Congress and the administration should agree on in a Federal farm program for commodities and agriculture.

Cattlemen see the farm crisis as a matter of low prices, slumping demand by consumers, a drought in most of South Dakota, and the impact on the cattle business of Government programs that are economically harmful to cattlemen.

Cattlemen believe the Federal Government and Congress can help us—and our Nation—by doing two things. They are:

One, reduce the national deficit and work toward a balanced budget.

Two, work toward a strong trade policy that would eliminate our negative trade balance.

We agree that deficit spending causing high interest rates is the No. 1 problem facing our industry today. Devastating drought in the western one-half of South Dakota this spring and summer has compounded the situation many fold. Our producers now have two choices; one, sell their foundation breeding herds at greatly reduced prices, or two, purchase enough feed to get them through the winter, hoping that next year the rains will come and prices will improve.

Either choice is going to increase interest payments. Ag leaders tell us if we spend 25 percent of our gross income on interest payments, we probably will not make it.

Many of our people this year, due to the drought, the cattle market wreck and ever-increasing operating costs are going to experience interest payments well above 25 percent of their gross income and that means disaster for them now and it will hurt the cattle industry over the long haul. Interest rates must come down.

Cattlemen recommend Congress approve legislation that would:

One, support sodbuster bills. No commodity subsidies should be paid to an operator who causes new plow out of class IVe, VI, VII, and VIII lands, as determined by local conservation districts.

Two, oppose farm subsidy programs in the 1985 Federal farm bill that would adversely impact any segment of agriculture.

Three, approve legislation limiting farm loss tax deductions by farms owned by nonag corporations.

Four, support a statutory grazing fee formula that will recognize the permittees ability to pay and maintain stability and will enhance grazing on Federal lands and not be the single economic return to the U.S. Treasury.

Five, favor a division of administration of public lands between the Forest Service and Bureau of Land Management. South Dakota's National Grasslands should be administered with those in Montana and North Dakota.

We are frustrated with the dairy industry's ability to revive the paid dairy diversion program, which expired in March. New legislation to give dairymen money for selling their cows to reduce milk production passed the House Agriculture Committee. The proposed legislation will allow dairy cows to be sold in direct competition with beef cows which don't get a Federal cash subsidy. We object to such welfare programs.

Our national economic upturn in prosperity the last few years has pretty much bypassed agriculture. Many others have suffered with us, including the farm equipment manufacturers, labor, lending institutions, and more.

Under PIK, farmers got Government grain not to plant crops. Prices showed some relief. PIK took out more land in just Vermont, Ohio, and New York, than all the farmland in Japan. PIK cost the national economy more than 200,000 jobs. PIK did a lot of harm to U.S. business, labor, and export markets.

We understand programs are being suggested to remove millions of acres of farmland for conservation. Farmers with good prices will do a good job of conservation. Economic erosion of ag markets is much worse than erosion of the soil.

Mr. Chairman, two provisions in the 1985 farm bill being considered concern us: the long-term conservation reserve and the proposal for mandatory controls on grain.

We encourage conservation practices. Taking 20 to 30 million highly erodible acres out of crop production and putting it into less intensive use is a wise move. Much of this land should never have been in crop production.

However, we are concerned over what use this land will be put to and over what period of time that use will be phased in. This land will not be in a true conservation reserve under the proposal; instead, farmers will be paid to seed it to grass and then may be paid to run cattle or to hay the land. This kind of subsidy for land that was put into crops under subsidy, is hard to understand for cattlemen who have maintained good conservation practices on their rangeland.

We would like to see no haying or grazing allowed on land while the reserve contract is in effect. At the very least, no haying or grazing should be allowed while payments are being made to transfer it from cropland to grass. Even then, some restriction should be placed on use so that it is phased in over a period of years.

To do otherwise will not only be unfair subsidization, but will distort beef cattle markets as cattle are purchased to put on this pasture. Then, when the transition is complete, the additional cattle may depress beef prices. We urge you to place strong controls over haying and grazing on subsidized conservation reserve acreage.

The last issue I want to talk about is mandatory supply controls on grain. One proposal is being considered by the full Agriculture Committee. This proposal ignores the impact on the livestock industry.

Livestock producers are the biggest users of feed grains in the United States—we consume nearly twice as much feed grains in the United States than we export. A mandatory supply control program which would artificially increase grain prices would be devastating for the cattle industry. If feed grain prices go up, feeder cattle prices fall, so every segment of the cattle industry would feel the effect.

We urge you to consider alternatives, and to work to defeat this mandatory control program.

We appreciate this opportunity to discuss these important questions with you. We are depending on you to make the right choice that will affect and improve all segments of agriculture evenly.

Thank you.

[The prepared statement of Mr. Rasmussen appears at the conclusion of the hearing.]

Mr. COELHO. Thank you, Mr. Rasmussen. Now Mr. Daniel, please.

STATEMENT OF WILLIAM O. DANIEL, PRESIDENT, SOUTH DAKOTA LIVESTOCK ASSOCIATION

Mr. DANIEL. Congressmen Daschle, Coelho, and Bedell, my name is William Daniel. I am presently serving as the president of the South Dakota Livestock Association and I am a cattle feeder from Wentworth, SD.

The South Dakota Livestock Association is a trade association representing people who raise and feed livestock in South Dakota, primarily the cattle feeders from eastern South Dakota. We are also affiliated with the National Cattlemen's Association.

This morning I would like to discuss with you some of the interests our association has in the farm bill you are presently working on in Congress.

It has not been our association's policy to get involved with general farm bills, however, after the beef market downturn related to the so-called Dairy PIK Program, which subsidized the selloff of dairy cows to an already depressed beef market, the South Dakota Livestock Association has identified the need to become involved in farm policy matters to protect the interests of our cattlemen.

We are opposed to the dairy diversion plan because of the adverse impact of increased dairy slaughter tonnage on the already very weak beef market. We do not solve a problem by shifting the problem to another area or sector of agriculture.

If the dairy diversion program is going to be a part of the farm bill, it is imperative that the Congress include a measure that will provide for orderly marketing of dairy cows.

In addition, we feel that the purchase of the 200 million pounds of red meat annually in addition to the normal purchases under existing nutrition programs and budgets is a help, but not the long-range solution to the problem.

We feel that it is critical that we reduce the Federal deficit with uniform cuts in all programs, not just in agriculture. One of the biggest costs that the cattle industry has today is high-interest costs. We feel that reducing the deficit will bring about a lowering of interest rates.

We continue to support an effort to phase out our commodity programs, but feel that there must be a safety net under grain prices in order to assure an adequate supply of grain and until such time as a workable program is established. Further, we support the transition from a subsidized commodity program to a market-oriented program, if the change is supported by the existence of actual markets for our products.

I might add here that the typical farmer feeder of the Midwest does not want to have low grain prices, for it eventually leads to low livestock prices.

We support the goals of the long-term conservation reserve. However, we object to incentives to increase cattle production by grazing cattle on reserve acres.

Another important item of the farm bill is clear title legislation, which is being considered as part of the credit title of the farm bill.

Under current law in many States, a buyer of an agricultural commodity does not receive clear title to the commodity, and may be subject to double payment. Some States have limited the farm products exemption in some form or another to eliminate double jeopardy, but the laws vary from State to State. Livestock and other agricultural products move from State to State and cross-checking on mortgages is nearly impossible for the individual who is purchasing livestock or grain from someone. We would like to see agricultural commodities treated like other commodities by removing the farm products exemption from the Uniform Commercial Code.

The last item I wish to discuss is the Beef Promotion and Research Act. Legislation has been introduced to allow the beef industry to implement a national checkoff for promotion and research—as part of the 1985 farm bill.

Our marketplace is changing. Other products are aggressively going after the market that was traditionally ours for many years in the past.

If we are to stay in business of producing of cattle in South Dakota, we must have the means to carry out an authorized advertising, promotion, consumer information, and new product development program.

The current system of individual State checkoff programs is a step in the right direction, but our needs are very immediate, and if this legislation is passed as recommended by the National Cattlemen's Association, cattlemen could then decide whether to ask the U.S. Department of Agriculture to authorize the program.

We are asking for enabling legislation to implement this program as soon as possible, foregoing a time-consuming referendum until later, and also we are calling for this checkoff to be nonrefundable so that all producers will share equally in this program.

Gentlemen, this legislation is not asking for a Government subsidy, only for the tool to better help our Nation's largest agricultural industry.

We thank you for this opportunity to testify before you this morning. This concludes our formal testimony at this time.

Mr. COELHO. Thank you very much. I appreciate the comments made by both of you. You have made some rather interesting statements and you can be sure that I will question you later on.

Mr. Bedell.

Mr. BEDELL. Thank you, Mr. Chairman.

First of all, I want you to know that I appreciate your testimony; I appreciate your being here. I tell people we only learn from those with whom we disagree, and I disagree with you and therefore I appreciate your coming because there is always the possibility I might be wrong.

I probably am overly excited about the situation today because of the pain I see among my farmers when I talk to farm families and they break down crying to me as they tell to me about their problems. I'm probably overly concerned because of what happened yesterday.

Mr. Rasmussen, you said you didn't want a mandatory program with a referendum which would have raised prices, but it was the only chance we had to try to see that we did not lower farm prices on the crops that we grow in our country.

You people were successful, Mr. Rasmussen. It was not just the administration that beat us on that vote, it was the cattlemen that beat us, too. The reason I know that is I had a proposal that would have strengthened farm income and I talked to a lot of individual Members in the Congress about it and they told me the reason they could not vote for my proposal was because of the cattle producers they represented.

This hearing is not just taking place in South Dakota, this hearing is taking place all across the country and other Members of Congress are hearing exactly what we heard here. So I have to tell you my belief.

My first belief is that you are wrong in regard to the dairy program. I may be wrong, but if I were a cattleman, the one thing I would be concerned about would be oversupply, and the one thing I would like to see would be fewer numbers of cows in milk herds dropping calves to increase the supply of milk and red meat.

Now it is right that the diversion program will cause some pain for a while until we get those numbers down, but you folks are fighting us against trying to get those numbers down. The way you want us to get the numbers down is to wipe out dairy farmers by reducing their income.

The second problem that I have is that you say here that:

> Livestock producers are the biggest users of feed grain in the United States. We consume nearly twice as much feed grains in the United States than we export. A mandatory supply control program which would artificially increase grain prices would be devastating for the cattle industry. If these grain prices go up, feed or cattle prices will fall so every segment of the cattle industry would feel the effect.

That is saying that you are opposed to stronger prices for corn and other feed grains.

I should explain to you, maybe you are already aware, that in June 1984, the price of corn on the Chicago Board of Trade was $3.47. At that same time this year, the price was $2.79. The cash market price for that corn is nearly 40 cents lower yet. Costs are not going down for those people that raise those crops.

As you said, Mr. Daniel, you think low feed prices mean low cattle prices, but that is not what your people are saying in Washington. Your people are doing everything they can to say that we have got to have lower prices, and your testimony, in effect, says that.

Do you really believe that what we ought to do is lower prices of farm crops at this time?

Let me go further. It appears to me that you are converters. You are converters of grain into another product, just as dairy farmers are converters and just as those people that make cornflakes are converters. Now if we got the people that make cornflakes and the people that feed cattle and the—give the dairy farmers credit. They are not doing it. Those people are all telling us we have got to have lower grain prices, lower farm prices. We're in a terrible mess.

I am sorry. We should not criticize witnesses when they come before us, but you have got to know the problem that we face. I told you we have got the administration just doing everything they can to wreck prices and we have the cattlemen trying to do the same thing. I am not here to make speeches; I am here because I am concerned. If I am wrong, tell me where I am wrong.

Mr. **Rasmussen**. Congressman Bedell, the problem I have is with the artificial price transition. The PIK Program raised grain prices. It lowered my yearling cattle prices by $5, and I have one shot a year at that price. That is tough for us to take.

An orderly transition is what we are looking for. Every time an artificial item is plugged into the agricultural economy to help one segment, it hurts some of the other segments, and it seems that the cattle industry keeps suffering from the artificial plug-ins that the Federal Government keeps trying to put in to help somebody.

You mentioned the dairy diversion program. In June as opposed to May, 41,000 additional cows in production; 5-percent increase as compared with last year; in June as opposed to May.

The program did not work, apparently. These 41,000 cows that are online now have to have something done with them to get them out of the production if the dairy diversion program passes. That is the thing that is detrimental to us. That is going to affect the price of our cows, and we depend pretty heavily on that. We replace our herd about once every 10 years, and they are important.

Mr. **Bedell**. First of all, we talk about the dairy program and I think it would be better for Mr. Coelho to explain that, but at least while the dairy program was in effect, I think it worked in every respect.

Now the problem was that the administration would not let us pass a long-term dairy program, and when it came to an end we had a serious problem, in my opinion. But I am going to let Mr. Coelho address that.

But the bigger problem we face is that the farmers have to know, the farmers of this country have to know that not only do we have the administration fighting us as hard as they can, those of us who are trying to do something about farm income as it applies to wheat and feed grains, we have got the cattlemen fighting us equally hard. And you are part of it, and the sad thing is that you are part of the inside because you are part of agriculture. Your testimony says that you are against the mandatory program that would do something to increase prices. But whether mandatory or not, you are against a program—at least your Washington people are and your testimony is, and that is what Members of Congress all across the land are hearing as they have these types of sessions—do not increase prices because it is going to be bad for us in feeding cattle.

My cattle feeders are having a terrible time. I am losing them like crazy and that is an awful thing, but my gosh, if the answer to that is to move farm prices still lower when farmers still cannot produce corn and wheat and other feed grains and so on at these prices, and if that is what you are advocating, I just have to tell you it just tears me apart as I try to work in Washington. We are not supposed to talk this way to people that are so good to come and testify before us and I know it and I appreciate your coming here, but I just have to tell you, I am just ready to tear my hair out after what happened to us yesterday wherein, in my opinion, if the cattlemen had supported us in what we are trying to do, I think we would have gotten it done in spite of the opposition of the administration.

I am sorry, Mr. Chairman, if I have said something I should not, but it is just because I feel so strongly about this issue.

Mr. Coelho. Thank you, Mr. Bedell.

At a congressional hearing, we, as legislators, have the right to bring up what is most on our mind and sometimes it is an education both ways, and obviously you feel very strongly about it and you have every right to bring it up and you made some good points.

Instead of introducing Mr. Daschle for some comments, I am going to take the prerogative of the Chair and follow up with some comments.

Mr. Rasmussen, can you answer a question for me? Was your testimony prepared by the Washington, DC office of the Cattlemen Association?

Mr. Rasmussen. No, sir. No.

Mr. Coelho. It was not?

Mr. Rasmussen. Some of the material may have come from that source, yes, because we are affiliated with the NCA.

Mr. Coelho. It was not prepared by them, it was some of the material which was supplied to you?

Mr. Rasmussen. This was prepared by me.

Mr. Coelho. OK. You advocate in your statement that there are several things needed for the national cattlemen, for the cattlemen from South Dakota. You talk about a beef promotion program, you talk about grazing fees that make some sense. You talk about—well, you did not mention it but Mr. Daniel did about clear title, and I want to tell you that in every instance where the national cattlemen and the cattle people, cattle feeders, have asked for some assistance to help you get over your problems, our subcommittee has agreed to it, because we want to make sure that the cattlemen and cow feeders can make it through this crisis. And we recognize that you people have been suffering.

But the problem I have is why do you not recognize that other people have a crisis too, and why cannot we help them out?

On the dairy program that we put together, we basically say that the problem that we have is basically we have too much commodity. And the reason we have too much commodity is because we let a lot of imports into this country. That is not our dairymen's fault, that is not your fault.

We have a program to restrict imports on commodities that compete with your product, but it is not being enforced very effectively in regards to dairy, and you have some trouble in regards to your own.

And when I put together the dairy program with the help of the people around me, my goal was to bring all the groups together and let us work together to resolve our problems. The testimony today on both your parts does not help me out much, because a diversion program has an impact on you people and I know it does. But the way that we get rid of our problem in regards to the dairy industry is not to eliminate farmers, but it is to eliminate cows. And if we eliminate cows, it does have an impact on you. That is why we put in the 200 million-pound program. We require the Secretary of Agriculture to purchase red meat so that there is a way to eliminate or at least deflect the impact on you people.

But if you don't have a diversion program and you ask for an orderly program and we provide for an orderly program written by the cattlemen, if we do not have an orderly program through the diversion program, you are going to have red meat on the market regardless, through bankruptcies. You are going to eliminate farmers and they are going to be there competing with you in the marketplace. And I cannot understand why you people would not help us help the dairymen to get over this hurdle. We are providing for 100 percent herd buy-out.

We are providing for a program where you are talking here about subsidizing. The Federal Government is not subsidizing these dairymen. We have taken a cost of the program that is today $1.7 billion. We reduced the cost to the Government to $800 million, and how is the difference made up? Through a system that taxes the dairymen.

It is a self-help program. You talk about a self-help program for the cattlemen. That is what we are doing. And you talk about a need for a self-help program for the cattle industry, and, Mr. Daniel, you talked about the fact that you need to have it as a mandatory program, and you do not want the assessments returned because you want everybody to participate. And the panel that was here before has talked about how bad your program was, and I supported it and I intend to support it. But you do not help me when you say that you want all those things that help you and you need your support, but, gee, do not help out the other guy who has a problem.

Now I hope that the position reflected by you today is not a position reflected by the National Cattlemen Association because I thought that we had some understandings.

You know, in life it is interesting. At home—I assume both of you are married—you don't get your way 100 percent. You have to give and take a little bit. I hope that is the case. And in the local PTA or in each of your associations, you do not get exactly what you want. You have to give and take a little bit.

Well, it is the same thing in writing a farm bill. We were asking you to take a little and give a little. I am committed not to legislate bankruptcy for anybody.

The administration wants to do that. What you are advocating today is the same thing. I do not want bankruptcy for you people, but please help us prevent bankruptcy for the dairymen, too.

You talk about lowering price supports. We are lowering the price supports from $12.60 to $11.60, already. We are talking about assessing the dairymen at least 40 cents per hundredweight to pay for this program.

We provide from the American taxpayers for 200 million pounds of red meat to prevent the impact on you people. That subsidized you people in order to prevent the damage for you people. I want to do that. I do not understand why I cannot get you to understand and help us on the other end, and that is my frustration.

Mr. DANIEL. I would like to say one thing here. You are talking to a gentleman who has just worked his way through 1,000 head of cattle and lost $100 a head, and it is hard to not be frustrated when you see a program that will probably add to your problem.

As I stated before, shifting the problem to another sector of the industry does not help.

Mr. COELHO. Let me just interrupt you there, Mr. Daniel, just one thing. Does it add to your problem? In other words, my point is if these people go through bankruptcy, which they will, that is going to add to your problem, too. So you are going to have red meat on the market, either through a diversion program, or red meat in an orderly fashion in a program written by the cattlemen. Or you are going to have red meat on the market as a result of bankruptcy in a not very orderly fashion.

Which is better for you? There is going to be impact. I understand that. I am trying to provide a program that hurts you the least, and you are saying, "Let us have the free market," which will hurt you the most.

I do not understand. I know it is going to hurt you. I understand that; I acknowledge that. But I am trying to do something that hurts you the least. I do not understand the position that you have taken.

Mr. Rasmussen, do you have anything to say?

Mr. RASMUSSEN. The positions that I have taken, as you remember, was the position that our stockgrower members have as resolutions. That is how they believe.

We seem to be old fashioned, I guess, because we are for free enterprise. We are great believers in the free enterprise business, and that does not allow for mandatory controls of prices and——

Mr. COELHO. Mr. Rasmussen, let me ask you. You are for free enterprise, but you want the Federal Government to make sure that the grazing fees that you have are protected. You want to make sure that the Federal Government controls imports of red meat into this country, you are for free enterprise on your terms.

I happen to agree with the programs that you want, but is that not rather duplicitous? I mean I do not understand.

Mr. RASMUSSEN. The controls on public lands is not a return to the individual. What we are asking for is a fair lease rate.

Mr. COELHO. Let us take David Stockman's position. Why not charge you more for those leases so we can reduce what you call your No. 1 priority, reduction of the deficits? Let us double those grazing fees so that we can reduce that deficit faster.

Would that not be fair to the dairymen and to the grain farmers all over this area?

Mr. RASMUSSEN. They will sell for about so much and then after that amount, they will not sell. They will be used, and——

Mr. COELHO. But why not try the free market?

Mr. RASMUSSEN. That is about what the formula is doing now.

Mr. COELHO. But why not try the free market? Why not let the market dictate what it is instead of a formula.

I mean I am not argumentative in that I am against what you are advocating. I am only saying I support what you want to have done for your industry. I am a strong advocate as chairman of this subcommittee. I have advocated and we have got it in the bill.

What I am opposed to is that on the industries other than yours, you are opposed to everything we are doing. And I don't understand how in this land you can, in effect, say that, "You know there is a two-way street with everything else I do, but it is not true with other parts of the livestock industry."

Mr. **Rasmussen**. Our No. 1 priority is to reduce the national deficit, and work toward a balanced budget.

Mr. **Coelho**. Reducing the taxpayer's exposure from $1.7 billion to $800 million helps you in that goal, but you are opposed to it.

Mr. **Rasmussen**. But it is still $800 million, and it puts a lot of beef on the market in competition. Now if the 200 million pounds is going to be purchased for School Lunch Programs, we are talking about another budget deficit of $1½ million annually, and that does not make sense. It does not wash with us.

These programs have not worked in the past. PIK did not work. PIK hurt us. It hurt lots of people.

Mr. **Coelho**. The grain PIK or the dairy PIK?

Mr. **Rasmussen**. The grain PIK. The original program. These things have not worked. We would like to see something devised from all this that does work and work evenly for all segments of agriculture.

Mr. **Bedell**. Mr. Rasmussen, we agree with you on reducing the deficit, but the fact of the matter is that the 1984 dairy program cost $2.7 billion; the proposal that you are opposing for 1986 would cost $800,000, a reduction of nearly $2 billion. That is something that you are opposing that would reduce the deficit by nearly $2 billion.

We are not here to argue with you. Obviously, some of us or I am extremely disturbed over the fact that I believe your organization, the National Cattlemen, were to a great extent responsible for the fact that apparently we are not going to be able to do anything to increase farm income as it comes from the crops we grow from the ground.

I apologize for being disturbed, if we are, but I think that many of us see exactly what Mr. Coelho said, and that is that you do not have any consideration for the big problem we face, which I think is the actual collapse of agriculture because of the fact that our main basic products, which are the things we grow from the ground, are going to go down and down further in price and that that is what you in effect advocate. At least you do not advocate any strengthening.

I am sorry to take so long. Thank you.

Mr. **Coelho**. Thank you very much. I would hope that the position that you take is a grassroots position, a frustration position and it is not really the official position of your Cattlemen Association as we enter the final stages of this farm bill. But I will check that as soon as I get back Monday.

Mr. **Daschle**. This started out as a livestock ring and I think it has become a boxing ring. But as you can see, my colleagues feel very strongly about it, and I guess I should as sentiment, that unless we are together, unless we can find some way to unify our farm organizations, we are lost. We are dead. And we are all going to divide and be conquered. And that is what is happening in Washington.

We can take on the administration and we can beat them. We can take on any single other element of the economy and we can beat them if we are unified. But if we are split apart and if we are fractionated in some way on farm legislation or on given farm policy, we are destroyed. That is what I think is going to happen unless we can bring our act together.

Let me ask you one thing in regard to your feeling about the farm program. You obviously feel strongly that we need a free market, but neither of you suggest we have a free market today, right? Do you feel we have a free market, Bill or Skee?

Mr. **Rasmussen**. No, we do not.

Mr. **Daschle**. You do not.

Mr. **Daniel**. No, we cannot accept a free market under the present conditions.

Mr. **Daschle**. So you do not think there is a free market.

Well, if we do not have a free market, is it then your view that until we do have a free market, we are going to have to have some kind of a program to ensure that we can compete, given the fact that there is a heavy amount of international subsidization today for one?

Mr. **Daniel**. As I stated in my statement, we have to have some type of a program until the worldwide situation gets ironed out.

Mr. **Daschle**. Do you not feel that until we somehow provide for reduction in the amount of incentives that there are for livestock productions, not to mention dairy and everything else, that that, too, is an impediment to a free market?

And is there not a real impediment to a free market with the over-valued dollar as it exists today?

Mr. **Rasmussen**. Very definitely.

Mr. **Daschle**. Well, it seems to me then that we are really trying to say the same thing. I mean if we have got to have a reduction in all these impediments before we have a free market, what are we going to do? We must have a program that helps dairy, that helps grain, that helps livestock, and it seems to me that the only way we can do it is if we can bring everybody together in a way that will help them all at the same time.

And it seems to me that we have accomplished something close to that with what we have been proposing, and I would just hope that we could have the indulgence of every single farm organization who all want the same thing.

I have a strong feeling that if we could eliminate the international subsidization, if we could eliminate the international problem we have with the overvalued dollar, if we could eliminate the incredible incentive there is in the tax law, there is not a farmer or rancher in this country that could not survive in a free market.

But until we can take away the subsidy that exists, until we can take away the overvalued dollar, until we can take away this huge tax incentive, that free market is nothing more than a myth, and to pretend we have it is just living in a dark closet that is going to take us nowhere.

I hope that we can come up with a program that recognizes that and that recognizes that to do anything less is what I have said it is all along, it is just flat out unilateral disarmament, and we cannot have it.

I want to thank both of you for coming this morning. There is obviously disagreements along the way. We have got to get our act together and go out there and win this thing if we are going to keep agriculture viable in South Dakota and across the country.

Mr. **Coelho**. Thank you, Mr. Daschle.

I also want to thank both of you, Mr. Daniel and Mr. Rasmussen, for attending today.

I want to stress what I think is the need for us to work together and I have spent a lot of time in this year to bring different agriculture groups together to put together a farm bill.

I was hopeful that the provisions that we put in the dairy section of the farm bill dealing with the livestock industry were things that would help you to understand the need to give and take, at least I was led to believe that. And I would hope that you would reflect on what we have discussed here today and hopefully some of the people in your national office would be alerted to some of our concerns because we intend to tell them on Monday, but you may want to tell them yourselves.

But I am looking for that cooperation to resolve our problems collectively together. Thank you very much.

The next panel is Mr. Bob Merrill, Mr. Keith Squires, and Mr. David Hansen.

We will now hear from the dairy industry in regard to their concerns, which should make an interesting contrast.

Mr. Merrill, you may begin.

STATEMENT OF ROBERT L. MERRILL, MID-AMERICA DAIRYMEN, INC., SIOUX FALLS, SD

Mr. **Merrill**. Congressman Coelho and members of the subcommittee, my name is Bob Merrill. I am a dairy and grain farmer down in the Parker area. I am here representing Mid-America Dairymen, and I do want to say that the comments that I make today are my personal feelings.

Mid-America Dairymen, Inc. supports the five point dairy proposal of the National Milk Producers Federation as it was incorporated into legislation by the House Agriculture Committee on July 9, 1985

Mr. **Coelho**. Mr. Merrill, let me just ask you for clarification, are you speaking in behalf of Mid-Am, or are you speaking on behalf of Mr. Merrill?

Mr. **Merrill**. I am here to represent Mid-American Dairymen, but my statement is in full compliance, personally.

Mr. **Coelho**. So that everything you say may not be totally in agreement with Mid-Am, or is that what you are trying to tell us, sir?

Mr. **Merrill**. No; I wanted to say that everything I say that Mid-Am is for, that I personally——

Mr. **Coelho**. You totally support. OK, that is all I needed.

Mr. **Merrill** [continuing]. Totally support.

Mr. COELHO. Thank you very much.

Mr. MERRILL. The approved legislation became the dairy provisions of H.R. 2100, the Agriculture Committee's omnibus 1985 farm bill.

The five points are listed in my written statement, and unless you would like to have me read them, I would like to go to the part of the bill that I feel is the meat of the bill, the one that has been receiving disagreement today.

The milk diversion program that expired on April 1 of this year was a success. Milk production was reduced from 139 billion pounds in 1983, to 135 billion pounds in 1984, which was a reduction of 3.1 percent. More importantly, purchases by the Commodity Credit Corporation were reduced by almost 50 percent, declining from 16.8 billion pounds of product, to 8.8 billion pounds in 1984.

The reduced purchases resulted in a savings to taxpayers of over $1 billion.

The program was financed almost entirely by dairy farmers, with 92 percent of the diversion payments being made from deductions from dairy farmer milk checks. Dairy farmer deductions during the period totaled $879 million.

The past program was successful and would have been more successful had it run longer. The diversion plan provided by H.R. 2100 will be more successful, since it provides for an initial 24-month program, and also provides for additional stability in the movement of dairy cows to slaughter.

These cows are going to go to slaughter. It has been stated earlier by the members of the committee that they will go with some uniformity.

We do need swift action on a new dairy bill. Milk production is increasing at an increasing rate. Milk production in June was up 6.1 percent, which was up 4.6 percent in May.

Congressional action needs to be taken to head off a potential runaway milk promotion situation. Dairy farmers will continue to increase production as their price declines to try and meet the cash-flow requirements that they face.

We face all the same problems that the other farmers face, and dairy farmers will continue to work harder, produce more milk as the price declines, to try and stay, until all of a sudden bankruptcy grabs us.

Thank you.

[The prepared statement of Mr. Merrill appears at the conclusion of the hearing.]

Mr. COELHO. Thank you very much, Mr. Merrill.

Mr. Squires.

STATEMENT OF KEITH B. SQUIRES, DAIRY FARMER, BRANDT, SD, AND MEMBER, ASSOCIATED MILK PRODUCERS, INC.

Mr. SQUIRES. My name is Keith Squires, and before I start with my testimony, I would like to say that I was down to the regional office of Associated Milk Producers Inc., and we put together this testimony also.

It is my sentiment; I agree 100 percent. There might be some mistakes in it, but I take it you will forgive me.

Good morning, my name is Keith Squires and along with my family I milk 80 cows in Brandt, SD. Since its formation in 1969, I have been a member of Associated Milk Producers, Inc., the Nation's largest dairy farmer cooperative, and have had the privilege of serving on AMPI's corporate board of directors since 1974.

This morning I would like to speak in support of H.R. 2100, the Dairy Unity Act. This bill offers a reasonable and responsible approach to the dairy provisions of the 1985 farm bill. As a dairy farmer concerned about my industry's future, I welcome its enactment.

There are several solid reasons H.R. 2100 should be enacted, both in the interest of the U.S. dairy farm families and in the interest of the Nation as a whole. We commend this subcommittee and full House Agriculture Committee for approving this proposal during markup.

First, it provides for the greatest budgetary savings. H.R. 2100 is projected to reduce Government costs for the dairy program in fiscal year 1986 by $700 million. No other dairy proposal can match those savings. By comparison, the proposal offered during House subcommittee and full committee markup to cut milk support prices to as low as $9.60 per hundredweight would cost the Government about twice as much.

H.R. 2100 places an absolute limit on the cost of the milk price support program at a level necessary to purchase and store 5 billion pounds milk equivalent. No other 1985 farm bill dairy proposal offers such a lid. The proposed standby diversion authority would be financed entirely by dairy farmers themselves, as was the case with the 15-month milk diversion program that ended March 31, 1985.

Second, the dairy industry stands firmly united behind this plan. It took some time, but working with the National Milk Producers Federation, the dairy industry stands together behind the five-point plan which makes up the bill. The vast majority of dairy producer organizations in this country support this proposal. In fact, I do not think there has ever been a time that the dairy industry has been so united.

Third, the diversion plan featured in the legislation has a proven track record. The experience of the milk diversion program over the past year showed that dairy farmers will respond positively to individual incentives to reduce production. Consider these accomplishments of the milk diversion program during 1984: After 57 months of consecutive increases, the national milk production dropped 3 percent; Government lurchases kf surplus dairy products went down nearly 50 percent; Government costs for the dairy program were cut by over 1 billion or 40 percent.

Did you know that if all other areas of the budget were able to provide the spending reductions produced in the dairy program, the Federal budget deficit problem would be solved?

Next, H.R. 2100 will continue to assure U.S. consumers of dependable supplies of milk and dairy products at reasonable prices. The standby diversion plan allows the dairy industry to reduce milk production gradually. This is important to the economic stability, for both agriculture and consumers, and is much preferred to the forced liquidation of thousands of dairy operations which would occur under a straight price cut.

Finally, we recognize the concern of livestock producers, and H.R. 2100 prescribes several measures to head off potential problems if a diversion program increases the number of cows sent to slaughter.

The Agriculture Department is directed to increase by $200 million annually, whenever the diversion program is in effect, its purchases of meat for domestic donation programs.

Sixty percent of the additional cull cows must go to market during the months of March 1 through August 31, with no more than 40 percent marketed during September 1 through February 28; plus, no more than 7 percent of the national dairy herd can be slaughtered under the diversion program in a 12-month period.

All in all, we believe that H.R. 2100 provides an effective and responsible approach to the current dairy situation. It offers the most effective way available to keep Government costs under control, while continuing the stability dairy farm families need and deserve.

In closing, let us emphasize that H.R. 2100 may not coincide with the philosophy of every dairy producer in the Nation, but it is clearly superior to the only other budget option for the 1985 farm bill—a deep price cut of $2 a hundredweight. We need to enact H.R. 2100.

Thank you.

STATEMENT OF DAVID E. HANSEN, DAIRY FARMER, IRENE, SD

Mr. HANSEN. Chairman Coelho, Berkley Bedell, and Tom Daschle, my name is Dave Hansen. I am testifying as a dairyman and have written my own text.

I farm 900 acres of land near Irene, and my wife and I farm with our parents. We have 600 acres of cropland, including corn, oats, soy beans, and alfalfa. The balance of our land is in pasture.

We also milk 60 cows and feed other dairy steers. I am giving you this background to emphasize a point. The recent $1 drop per hundredweight in milk price, plus a near $15 drop per hundredweight in fat cattle will cost us nearly $20,000 this year on our relatively small farming operation. There is no drop in cost of production.

The past 3 years, we have seen our 500 acres of owned land drop in value nearly 50 percent. Land we bought on contract and made payments on for 6 years is now worth less money than our current balance. We work more hours per day than we did 5 years ago; we see less income and less, if any, profit.

Interest rates remain high, stress becomes a new word in our daily lives. We have made some mistakes in the last few years and we are paying for these mistakes.

There are others that have also made mistakes. The Federal land bank made some bad loans and they counter that move by raising interest rates on the remaining good loan [illegible] when interest rates should be dropping.

Our Secretary of Agriculture has made mistakes. He talks of free markets. My father says, "Freedom of what? Freedom to go broke."

Cheap food has been a Government policy for years. People in the United States pay a very low percentage of their income for food. Price supports give stability to the producer as well as the consumer at a small cost to the taxpayers compared to total food costs of other countries.

In the case of the dairymen, we are willing to assess our milk production to pay for a program that will curb overproduction. And still, do we need to apologize for overproducing such a wholesome and nutritious food as milk and milk products? Can't our Government be fair with its farmers? We do not wish to borrow more money. There is no profit in our business.

We are victims of low prices, high interest, dairy and casein competition and unfair trade barriers. It is not a responsible Government that controls production by dropping prices until it slowly chokes off enough producers so that production equals consumption.

Government has been a part of agriculture for years. Listen to our needs and be a part of our future.

Thank you.

Mr. **Coelho**. Thank you very much.

Mr. Bedell.

Mr. **Bedell**. I have no questions.

Mr. **Coelho**. Mr. Daschle.

Mr. **Daschle**. I want to thank all of you for your testimony. I would only ask one question and it relates to a concern expressed by a few people as I have talked to them about what we have come up with.

Clearly, I think you are all in agreement that what we have is many times better than what was being offered. How do you feel this program will impact on a dairy producer who has been producing for less than 10 years?

Mr. **Squires**. I think the only situation that I can see that might hurt a producer who has produced for 10 years or less is that if he had his son or some other relation or a partner or something come into the operation just prior to the enactment of this program and they did not have the base that would allow them to cut the 5 to 30 percent, then it would be a hardship on that kind of a situation, I believe.

Mr. **Merrill**. I do not feel that it would be a hardship. I feel that the program would be a help. It is a voluntary program. You do not have to sign up for 5 to 30 percent. It will put a floor under the price that they will be selling milk at. It will be a help for all dairymen, whether they have been milking a short time or a long time.

Mr. **Squires**. I think it is truly a help to all dairymen. You know this diversion program that we had, the fellow that did not participate surely benefited many times over from the program.

Mr. **Daschle**. Mr. Chairman, I am wondering if you would allow something. Sometimes in hearings such as this, you can be a little more innovative in trying to gain some appreciation of the sentiment of those who come to a hearing of this kind.

I have several thoughts in mind with regard to questions, but one would come to mind right now. How many dairy producers do we have in the audience this morning?

Not that many. Of those who are here, how many support the dairy program, as you understand it, to be incorporated in the farm bill right now?

Virtually 100 percent of those who are here support it.

How many would not support it?

So 100 percent of those who are here support the program as it exists.

If I might be allowed one other question, I would like to ask—we were talking earlier about the need for price. How many of those who are here are active farmers?

Of those who have just raised their hand, how many feel that we need to have higher commodity prices for crops?

How many people feel that we ought to have, to be market-oriented or for whatever reason, lower commodity prices?

It sounds like a silly question but we are hearing the arguments in Washington and the arguments presented earlier that we have to have lower farm prices, and let the record show that I would say, and maybe you could clarify this or confirm it, that virtually 100 percent of the participating farmers indicated at this particular hearing that we need higher commodity prices.

Thank you, gentlemen, for your participation.

Mr. COELHO. Thank you. If I could just make one statement. I appreciate very much your statements, not only identifying the benefits of the diversion program that we had, but supporting the program as is, but more importantly pointing out your concerns about the impact that you might have on the cattle industry. And I think that it is very important that you point out that the provisions of the farm bill do try to alleviate that so that we can have an orderly program. And so I do appreciate that very much. I am only disappointed that Mr. Rasmussen and Mr. Daniel have left and could not have heard that. But I appreciate that very much.

Thank you very much.

Our next panel will be made up of—I'd like to ask before we bring the panel up, Tom asked whether different producers—I was sort of interested in what the crowd is made up of.

How many in this crowd are cattlemen?

Give me a show of hands again, will you?

Let the record show that at least 50 to 60 percent of the crowd is made up of cattlemen. And let me ask you about prices now. Do you feel that in order to succeed, that you want to have lower prices for the wheat and feed grain people? Do you think that that needs to be accomplished? How many would say yes?

How many would say no?

Berk, you can feel better.

Let the record show that of the grassroots cattlemen here in this audience that 100 percent were opposed to lower prices for wheat and feed grains and 100 percent supported higher prices.

Let me ask you also how many of the cattlemen, how many of you understand or would support an effort to take care of your industry's needs, which we do in the bill, but also try to do something constructively in regards to the overproduction of the dairy industry through the diversion program? How many of you support what we are doing in this bill?

How many of you oppose?

Let the record show that only one was opposed.

I have to compliment you. I am very pleased. I am glad you brought me up here, Tommy. This is a great hearing.

Thank you very much.

Mr. DASCHLE. I want to thank you all for your participation in that regard and I asked the chairman if at the end of the hearing if we could carve out—this is a very busy day. We are going from here to a farm for an open-door meeting, where we are going to carry on, in a more informal way, discussions, and that is going to be at the Berny Burkman farm just outside of Brandon, so I encourage anyone who has the time and wants to carry on an informal discussion with the chairman, by all means please come by. But we will leave some time at the end for some questions or for some comments for the official record.

The last thing that we are taking up at the hearing, and I just want to lay it out——

Mr. COELHO. Before Tommy makes his statement, why do we not have the next panel come up so we are ready.

Mr. Adee, Mr. Meyer, Mr. Schmidt, and Mr. Klein, would you please come up and then we will be ready.

Mr. DASCHLE. South Dakota is one of the larger meat and honey producers in the country. We are very proud of that fact, and they have talked to me on numerous occasions about the need to express themselves for the official committee record. They have been given an opportunity to do that today, even though it is not directly related to livestock and other commodities. It is a very important part of agriculture, and so we are pleased that they are here, and this is in direct response to requests that they have made of me on numerous occasions to be heard on an issue of great concern to them

Gentlemen, we are glad you are here, and I will turn the microphone back to the chairman.

Mr. COELHO. I thank you, gentlemen. I also would like to state for the record that my district is in the central part of the State of California, and we produce commercially 220 different agriculture commodities. A lot of those commodities are fruits and nuts.

But in order to produce those fruits and nuts, it is important that we have bees, and that is what the whole life cycle is all about. So I am also very pleased that this panel is here.

Mr. Adee, you may begin.

STATEMENT OF RICHARD L. ADEE, VICE PRESIDENT AND LEGISLATIVE CHAIRMAN, AMERICAN HONEY PRODUCERS ASSOCIATION

Mr. ADEE. Mr. Chairman, Congressman Bedell, Congressman Daschle, I am Richard Adee, of Bruce, SD. I am a beekeeper and there are a lot of beekeepers here in the crowd today.

Mr. COELHO. Why do we not ask that. I mean let us be fair.

How many beekeepers are there in the crowd?

Let the record show that about 50 percent of this crowd is beekeepers.

I always thought that California was diversified. It is obvious here that some people are diversified in South Dakota, too.

Go right ahead, Mr. Adee.

Mr. Adee. I am vice president of the American Honey Producers, and the reason that we are here today is because the bee industry is in a crisis. We are not unique. We are right in there with the rest of the agriculture. Maybe even a little more so, our problems are.

This past year, imports took over 70 percent of our domestic markets. Now the automobile people are concerned when they lose 15 percent of their domestic markets to imports, but we have lost 70 percent of our domestic markets to imports.

In 1975, the industry petitioned the International Trade Commission to conduct an investigation as to how the import honey was affecting the domestic bee industry, and the International Trade Commission ruled in our favor. They found we were definitely being damaged by imports back in 1975.

They made recommendations for import relief in the form of quotas and tariffs. They sent those recommendations to the President and he decided to reject those recommendations.

Today, with no provisions being made for import restrictions, five times as much honey is coming in today as came in in 1975, when the International Trade Commission found damage.

We have become the dumping ground of the world. Other countries have high tariffs. They protect their bee industries. The European Community has a 27 percent added-on tariff, the Japanese have a 30 percent added-on tariff, the Chinese an 80 percent, the Mexicans a 70 percent, and with those high tariffs against our 1 cent a pound tariff, we are the only real good market for the importers of the world to ship their honey to.

So we are the dumping ground of the world, and when we have to compete against the countries that are shipping this honey to us, and most of them are developing countries; there is Mexico, Argentina, and China, three out of the top four who are exporting to us, and may have low wages as you are well aware, we are competing against 10 cents an hour labor in China, $5 a day labor in Mexico, and it is impossible.

And since we have lost all of our markets, or basically all of our markets, to imported honey, we have had to rely on the price support program and the Government as a source of markets, and this has put a big burden on our price support program. And because of this, the cost of the program has increased quite drastically.

Now the administration has taken the position that a price support program—and they say it is too high like they do in all the rest of the commodities, it is causing overproduction of honey. And, consequently, they are having to buy more and more honey.

Well, that is absolutely an erroneous assumption. I have a chart here and there is a copy of it in the back of my written statement there showing that honey production is actually declining in the United States. We are down now to our last year's crop, it was only a 165 million pound crop.

So that is an assumption that is erroneous. They have used this on several occasions. They say the cost of the program is attributed to this high production. Well, the cost of the program has not attributed to high production. If you will look again at the back of the statement, you will see there is a chart there showing that as imports have come in, the Commodity Credit has taken over a comparable amount of honey. There is a direct correlation between imports and the amount of honey Commodity Credit is taking over.

Also, it almost goes without saying that as Commodity Credit takes over more honey, the cost of the program has accelerated to the Government. So it is not production that is causing the problem, not overproduction, it is imports that is causing the problem of the increased cost to our Government.

Now if we lose the price support program, and the administration has expressed their desire to take it away from us, the bee industry will go bankrupt. There is a lot of hurt out there. We have already heard this morning there is a lot of hurt among the other commodities; there is a lot of hurt in the bee industry. We have beekeepers going bankrupt, we have foreclosures that are taking place and there is a lot of hurt out there at the present support level. We cannot take further reductions in the price support level.

But, unfortunately, if we lose the bee industry in the United States, it is not just going to be the beekeepers who suffer, it is going to be every American who is going to suffer.

A recent study by Dr. Levin shows that there are crops benefiting from bee pollination, totaling $19 billion. And the USDA did an Agriculture Economic Report. They put this out just last fall and they gave an example as to how a reduction of 1 percent in a commodities supply will affect the consumer. And they took the fruit, vegetable, and nut crops, and they used the 1980 figures because that was the figures they had available to them, and that crop at that time was valued at $3.47 billion. And they said if these crops were reduced just 1 percent, it would impact the American consumer $87 million.

Now without bees, we know that these crops would be impacted much more than 1 percent in a decline. We would probably see a 10—maybe 15 or 20 percent reduction in those crops, and those are just 3.47 billion dollars' worth of the 19 billion dollars' worth of crops benefiting from bee pollination.

I might add that the $87 million impacted on those crops would offset the entire cost of the price support program that the U.S. Government is paying today.

We need the price support program if we are going to survive, because honey is the backbone of the bee industry. It is what we sell to pay the bills. There are about 10 percent of the beekeepers possibly renting bees for pollination services, but the rest of us have to rely on honey to pay our bills with.

Also, it goes without saying that the necessary profits that the industry must have to pay those bills also support the hobbyist and the sideline beekeepers, because without the commercial line of beekeepers, there will not be services available for those.

When we consider that one-third of the human diet is derived from insect pollinated plants, the question is can we as a nation neglect to support an industry so vital to our well being.

Problematically, we can probably import all of the honey that this country needs, but it is a fact, and this is a fact that we should not overlook, that we cannot import one drop of pollination. It all has to originate in the fields where the plants are.

In view of the unlimited imports, we beekeepers and the American consumer need the price support program now more than ever.

I want to thank you for holding this hearing. Your concern has always been appreciated. That concludes my statement.

[The prepared statement of Mr. Adee appears at the conclusion of the hearing.]

Mr. COEHLO. Thank you very much, Mr. Adee. I made a note of one of your statements, which you will hear about because I will repeat it many times, is that you cannot import one drop of pollination. We will use that repeatedly. Thank you very much.

Mr. Meyer.

STATEMENT OF JACK W. MEYER, JR., REPRESENTING A.H. MEYER & SONS, INC.

Mr. MEYER. Members of the subcommittee, I would like to thank you for the opportunity of a hearing concerning the honey loan program. By way of introduction, I am Jack Meyer, Jr., and I am representing A.H. Meyer & Sons, of Winfred, SD.

Our company has been involved in beekeeping for five generations. The honey producing operation is in North Dakota and South Dakota, and our overwintering operation is in Louisiana and Mississippi.

We are what is known as independent beekeepers, meaning that we sell our honey on the open market and not through a cooperative organization.

We have used the honey loan program since its institution in the early 1950's. This program has been a good program for the entire beekeeping industry, and it gives us as beekeepers the opportunity to market our honey in an orderly manner throughout the entire year.

The loan provision, therefore, provides the necessary cash-flow to avoid distressed sales of honey that would depress the market.

Now the loan price, which is currently based at 60-percent parity, provides a floor price for our honey. Since the beginning of the program, the majority of the honey has sold above the price support level, and I have included a table with your materials, if you would like to refer to that. And it shows in the 13th columm the Commodity Credit Corporation takeover of honey in the first 25 entries, and then the remaining 5 entries at the bottom.

As you can see from that chart, very small amounts of honey have been turned over to the Government.

From 1971 to 1979, no honey was taken over by the Commodity Credit Corporation. However, since 1981, the honey takeover has increased dramatically. The figures in table 1 show that there has not been an increase in honey production over the years, and these figures show that there has not been an increase in U.S. honey production over the last 29 years. There has, however, been a dramatic increase in imports; 52 million pounds in 1981, to 129 million pounds in 1984; this is also shown in table 1.

Now the question has been asked, "Why is the USDA currently taking over large amounts of honey?" To us, the answer is simple. The cause is not the production by the U.S. honey industry, but the unrestrained imports that are currently coming into our country below the price support level.

Because of imports, the majority of honey now being produced in the United States is being turned over to the CCC. Our markets are lost, our industry is in chaos.

The simplest way to return our market to stability and to reduce Government costs would be to not allow honey to enter the country below the price support level. It would seem to us that this would be good business and should be applied not only to honey but to all commodities.

Why does the administration propose to eliminate a program that has worked well for over 25 years? Our industry has not created the problem; imports have, and that is where the solution lies.

If we are not able to maintain the current price support level and loan program, we maintain that the honey industry along with its basically free pollination service for this Nation will be lost.

[The table follows:]

TABLE 1 **HONEY: Colony Numbers, Yield, Supply, Disposition and Program Activity**

Calendar:	Production Factor		Supply				Disposition				Program Activity	
(crop) Year	Colony Numbers	Yield per Colony	Production	Carryin	Imports	Total Supply	Domestic Use	Exports	Total Use	Carry-over	Loans Made	CCC Take-over
	1,000	pounds				million pounds						
1955	5,252	48.6	255.2	41.1	9.9	306.2	229.1	20.5	249.6	56.6	1.8	0
1956	5,195	41.2	214.0	56.6	4.8	275.4	207.7	18.2	227.9	49.5	1.6	0
1957	5,199	46.4	241.2	49.5	4.8	295.5	211.7	19.8	231.5	64.0	2.9	0.1
1958	5,152	50.6	260.5	64.0	3.9	328.4	234.9	22.4	257.3	71.1	5.6	2.0
1959	5,109	46.3	236.6	71.1	4.5	312.2	259.7	12.5	255.2	60.0	1.3	0
1960	5,009	48.5	242.8	60.0	12.4	315.2	253.6	9.4	263.0	52.2	1.1	0
1961	4,992	51.3	255.9	52.2	9.0	317.1	241.8	7.2	249.0	68.1	4.2	1.1
1962	4,900	50.9	249.6	68.1	7.1	324.8	255.3	13.6	268.9	55.9	3.4	0
1963	4,849	55.0	266.8	55.9	2.6	325.3	245.1	25.1	270.2	55.1	3.2	0
1964	4,840	51.9	251.2	55.1	4.9	311.2	236.5	8.9	245.4	65.8	9.5	2.2
1965	4,718	51.3	241.8	65.8	13.3	320.9	249.4	13.8	263.2	57.7	17.3	3.3
1966	4,646	52.0	241.6	57.7	9.5	308.8	239.1	14.4	253.5	55.3	33.9	4.1
1967	4,635	46.6	215.8	55.3	16.8	287.9	219.5	11.7	231.2	56.7	31.0	5.4
1968	4,539	42.2	191.4	56.7	16.9	265.0	215.9	8.1	224.0	41.9	24.9	0.1
1969	4,433	60.3	267.5	41.0	14.7	323.2	250.6	9.9	260.5	62.7	45.7	3.5
1970	4,285	51.7	221.7	62.7	8.9	293.3	234.6	8.1	242.8	50.6	40.6	1/
1971	4,107	48.2	197.8	50.6	11.4	259.8	219.9	7.6	227.5	32.3	22.9	0
1972	4,085	52.8	215.6	32.3	39.0	286.9	252.7	4.1	256.8	30.1	19.8	0
1973	4,124	58.0	239.1	30.1	10.7	279.9	224.9	17.6	242.5	37.4	12.1	0
1974	4,210	44.6	187.9	37.4	26.0	251.3	212.3	4.6	216.9	34.4	13.9	0
1975	4,206	47.4	199.2	34.4	46.4	280.0	242.8	4.0	246.8	33.2	3/	0
1976	4,269	46.4	198.0	33.2	66.5	297.7	258.7	4.7	263.4	34.3	3/	0
1977	4,323	41.2	178.1	34.3	63.9	276.3	240.8	5.5	246.3	30.0	14.1	0
1978	4,090	56.6	231.5	30.0	56.0	317.5	277.3	8.0	285.3	32.2	40.5	0
1979	4,163	57.3	238.7	32.2	58.6	329.5	282.7	8.8	291.5	38.0	49.1	0
1980	4,141	48.2	199.8	38.0	49.0	286.8	226.2	8.5	234.7	52.1	41.1	6.0
1981	4,213	44.1	185.9	52.1	77.3	315.3	232.0	9.2	241.2	74.1 2/	55.2	38.7
1982 4/	4,250	54.1	230.0	74.1	92.0	396.1	250.8	8.5	259.3	136.8 2/	88.4	74.5
1983 4/	4,275 5/	48.0	205.0	136.8	109.8	451.6	277.9	7.5	285.4	165.2 2/	113.5	114.9
1984 4/	4,350 5/	38.0 5/	165.0 5/	166.2 5	~~100.0~~ 128.7	457.2 8.9	~~277.8~~ 280.0	8.0 7.5	283.8 287.1	171.4 2/ 5/	(110.0)	(110.0)

1/ 5,900 pounds. 2/ Includes Government loan and inventory stocks and estimate of free stocks.
3/ Loan program discontinued. 4/ Data other than imports, exports and price support program activity are estimated.
5/ Projected.

ASCS/AD/D&SG/7-23-84/2747A

Mr. COEHLO. Thank you very much, Mr. Meyer.

Mr. Schmidt, please.

STATEMENT OF DONALD R. SCHMIDT, OWNER, SCHMIDT HONEY FARMS, WINNER, SD

Mr. SCHMIDT. Mr. Chairman, Mr. Bedell and Mr. Daschle, my name is Donald Schmidt of Winner, SD. I am presently the South Dakota director to the American Beekeeping Federation. I am serving my second term as an executive committee member of the national organization, which has members in every one of the 50 States. I have served in the past as president of the South Dakota Beekeepers Association; also as president of the Honey Industry Council of America.

I am a commercial beekeeper in a family business which was started by my father with his first colony in 1902. From 1958, when my father retired, until 1984, when my two brothers and I operated as a partnership. In January 1984, my two brothers retired after devoting their lifetime to beekeeping and I am now trying to keep the family business going.

All too often when thinking about the importance of honey bees and the beekeeping industry, people think only in terms of the value of honey and beeswax produced. While this $200 million plus is not an insignificant amount, it does not begin to compare with the 19 to 20 billion dollars' worth of crops produced in this country which are totally dependent on, or whose yield or quality is improved by, insect pollination.

Since the honey bee is the only pollinating insect under the control of man presently available in adequate numbers, honey bees provide the major share of this pollination activity. Without a strong and healthy commercial beekeeping industry to supply this need, production of many of our legumes, nuts, fruit, and vegetable crops would no longer be economically feasible. Additionally, billions of dollars worth of habitat, pollinated by bees, benefit wildlife and the environment.

Since commercial beekeepers derive most of their income from the sale of honey, a stable market for this product is essential if the industry is to survive. Those who suggest that pollination fees should be the major source of income rather than honey sales fail to realize and recognize that the honey bee is a wide ranging insect, frequently flying several miles during its foraging flights. This characteristic makes it impossible to determine which bees are pollinating which fields and to negotiate pollination contracts accordingly. And I might say that farmers are really in no position to take on additional burdens at this time.

The domestic honey market is being flooded by cheap imported honey. It is difficult to sell honey at a price which will cover the cost of production, so the avenue open to receive a fair price is the honey loan and price support program.

The cost of the honey loan and price support program is a very good investment for the U.S. taxpayers because the return to the food chain is so large. All consumers benefit directly from the improved quality and variety of food available.

There is no overproduction of honey in the United States. Also, there is not an overproduction problem with the crops which need the bees. The consumer and/or taxpayer are the beneficiaries of a healthy beekeeping environment.

Most of the pollination performed by bees is done free of charge and is actually a byproduct of honey production. This must remain so. This is possibly the only situation where the byproduct is worth an estimated 100 to 150 times as much as the product. It is possible to import honey, but it is not possible to import pollination. Bees must be kept in this country to pollinate.

In 1976, the International Trade Commission, after conducting hearings in 1975 throughout the United States, found that increased imports of honey constitute a threat of serious injury to the domestic industry, thereby entitling it to import relief. But, this relief was not given because the President did not sign the order.

Soon afterward, China started exporting honey to the United States. The threat became a reality. Honey also comes in from Canada, Mexico, Argentina, Central America and Australia. Imports now total about one-half or more of our total consumption.

The United States has only 1 cent per pound duty, which is about 2 percent. China has 80-percent duty, Japan 30 percent, Common Market 28 percent, Mexico 54 percent, Argentina 30 percent, Brazil a total ban. This is a one-way street. We cannot continue on this basis.

Beekeeping is labor intensive. It is not possible for U.S. beekeepers to compete directly with cheap labor markets in underdeveloped countries. Also, the very strong dollar compounds the problem.

The American Beekeeping Federation is presently working to pass the referendum on the Honey Promotion, Research and Information Act. This act is a self-help program based on contributions collected through a checkoff plan on honey sales. If the producers continue to work for passage of the referendum, hopefully, the first contributions can be collected from 1986 crop honey.

But, the industry, with the help of this checkoff program will need time to improve the honey market. In the meantime, a continuation of the honey loan and price support program is vitally needed.

We request your help and the help of the subcommittee as follows:

One, to continue the present honey loan and price support program as it now is, as provided in the 1949 farm legislation.

Two, work toward obtaining quotas and tariffs on imported honey.

The above, being accomplished, will provide steps toward correcting our balance of payments. National security depends upon a stable food production capability within the United States, which depends upon bees for pollination.

If we become dependent upon other countries for food, we will have lost any power we now have. Like OPEC with oil, FPEC—food producing exporting countries—would control our food supply.

Honey bees are our achilles heel.

Thank you.

Mr. Coelho. Thank you very much.

Mr. Klein.

STATEMENT OF STEPHEN M. KLEIN, PRESIDENT, MINNESOTA HONEY PRODUCERS ASSOCIATION

Mr. **Klein**. Thank you. Mr. Chairman, Mr. Bedell, Mr. Daschle, my name is Stephen Klein. I am president of the Minnesota Honey Producers Association. I live in Marshall, MN.

Our family has been in commercial bee business for over 45 years. In the past years we have marketed honey throughout this country and in Europe. Due to recent low-cost imports, a wholesale market that pays a reasonable price which reflects production costs virtually does not exist.

It has become very difficult to compete with bottled foreign honey in the retail market. At present, the only wholesale market viable to us is within an approximate 10-mile radius of our location where transportation costs are minimal.

The margins in bottled honey are often so small, it would be better and certainly easier to forfeit the entire crop to the Commodity Credit Corporation through a honey loan. We have resisted this course of action, but in each of the last several years, the honey loan program has provided an important source of income to our family.

What is Minnesota's interest in this loan program? Minnesota is consistently among the top six or seven States in the Nation for honey production (table 1). The large number of commercial beekeepers that produce this crop are adversely affected by substantial imports of honey. Without the honey loan program in Minnesota, most beekeepers could not exist.

Minnesota is also an important State in terms of total agricultural production. A valuable resource in this production is the pollination provided by the honey bees. Policy decisions that would reduce the number of beekeepers and bees would have a dramatic adverse effect on the total agricultural production (table 2).

In statistics recently published in 1985, they show that approximately $38 million of benefit from pollination in Minnesota alone.

Some questions about the honey loan program that have been brought up before by Members of Congress, and one question is whether or not the rates are reflecting an honest and fair price for the production costs? I think most all of us up here today and those in the audience will show that the prices in the support loan program are really a fair and honest reflection of what it costs to produce honey in this country.

These current rates, as the other gentlemen here have stated, have not stimulated an increase in the honey production (table 3). If this particular program is dropped, a substantial number of beekeepers will be forced out of business, perhaps most of them.

This lack of bees will have a dramatic adverse effect on other agriculture products which are directly or indirectly affected by the honey bee pollination.

One thing I would like to add here, on these numbers and statistics that we are bringing up on pollination, these are not industry statistics. These are all numbers that have been generated by USDA and State departments of agriculture (table 4).

What are the beekeepers doing at present to improve the situation? This past year, the act called the Honey, Research, Promotion, and Consumer Act was passed and signed by President Reagan. It is designed to assess beekeepers in order to develop new marketing strategies for improved sales of American honey. The referendum on this particular act is scheduled for some time this fall.

The beekeepers are also supporting the Beekeepers Preservation Act of 1985, H.R. 2382, which would provide for an ITC investigation of honey imports, hopefully resulting in tariffs or quotas for honey.

In addition to this, a large amount of money has been turned over to the Government. We do not want to stop right there and let the Government handle it all. A number of these products, or I should say the number amount to the honey has been turned over to ~~the School~~ Food Service Program for the bee industry has been concerned in showing the school industry and the school people how to use this honey, how to develop food products for their school programs.

In conclusion, I would like to urge you to support investigation for the International Trade Commission to study the effects of honey imports. I would also urge you to support a continuation of the honey loan program. With import restrictions and/or an improved market base, the loan program will return to its intended purpose of providing loans rather than buying honey.

[The prepared statement of Mr. Klein appears at the conclusion of the hearing.]

Mr. Coelho. Thank you. I appreciate the testimony from all of you on the panel. I am sure that you are aware of the current situation in regard to the honey provisions in the farm bill. First off is that the administration, as you know, has proposed a total elimination of the honey provisions. The Senate has passed provision that would ~~freeze the~~ program at last year's level, and for the next 5 years, cut the program by 5 percent for each of the next 5 years.

In the House, we do what you want. We will continue it as is. So you should be pleased with that. The administration and the Senate, even though they want to eliminate your program, basically do not address the imports at all in any way, so they are eliminating the program without addressing the imports.

In the House, we continue it, but we do not address the imports, but based on your testimony, I think Mr. Bedell and Mr. Daschle will pursue addressing the imports. We may do it as early as Tuesday, if we can work out a way.

While you have been testifying we have been scheming here and we might be able to get that resolved. Mr. Bedell may want to address that in a minute.

I think that your comments about continuing the program and controlling the imports is a good position, and, hopefully, we can do more about that. ~~After the~~ farm bill gets through, I might just say that I am interested in pursuing the problems in the industry, and so we will hold some hearings based on just the bee industry and what some of your problems are, what some of your concerns are. But I just cannot address it at this point as we are pursuing the farm bill. But we will do it right afterward, and who knows, we may come back up here to South Dakota and do it.

I appreciate your testimony, sir.

Mr. Bedell.

Mr. BEDELL. Thank you very much. Mr. Chairman, I think this is quite fortunate, actually, that we are having the hearing at this time. I can only speak for myself, but our problem is that we are doing a million things in the Congress, and we are terribly worried about our total farm situation and so on, and we spend limited time worrying about honey, so it is good, I think, that we have had this hearing. It certainly is for me.

To whom do you sell your honey? I thought it was—Sue Bee honey is in my area. I thought it was a co-op. Do you mostly sell through co-ops or do you mostly sell through commercial channels or how are your sales made?

Mr. ADEE. There are a good many beekeepers who do belong to the co-op and market their honey through the co-op, and then the balance of the beekeepers are what we call independent beekeepers, and we sell to independent bottlers.

Mr. BEDELL. Independent what?

Mr. ADEE. Honey bottlers. And they are found basically back in the metropolitan areas on the east coast and the South where the populations are.

Mr. BEDELL. Do the co-ops buy imported honey?

Mr. ADEE. Yes; they are buying imported honey today to help beat the competition.

Mr. BEDELL. But the co-ops are really your organizations? I mean you own them and control them, do you not?

Mr. ADEE. Yes; I am not a member of the Sue Honey co-op.

Mr. BEDELL. No, I did not mean that. I mean the producers.

Mr. ADEE. Yes. Yes, but it is a producer-owned organization. But today, the independents have really no market for their honey. There are no bottlers buying domestic honey today. If they are, it is just very small, limited quantities. Last year our total crop in the U.S. was 165 million pounds; 110 million pounds of that went into the price support program.

Mr. BEDELL. And what were our imports, do you know?

Mr. ADEE. Our imports last year were 128 million pounds of honey.

Mr. BEDELL. We imported even more than we put into the Government's——

Mr. ADEE. Right; we are subsidizing imports, is what we are doing.

Mr. BEDELL. Are you acquainted with the sugar program?

Mr. ADEE. To a degree, yes.

Mr. BEDELL. The world price of sugar is something on the order of 4 cents a pound, and we support sugar domestically at about four times that, four or five times that amount, and we are able to do that through quotas and limitations and so on.

Is there any chance we could do something similar to that with the honey program, do you know?

Mr. ADEE. We have looked at that and that would be a favorable program for us, if we could get programmed like the sugar people.

Mr. **Bedell**. The proposal I had before our committee yesterday was in regard to wheat and feed grains. It was a proposal that said that the producers who came into the program would have to set aside a certain amount of land, and then they would get marketing certificates for the amount of the normal crop they would have from the acres they were permitted to plant, and that you could not sell a crop into the domestic market without that certificate. You could if you didn't want to go into the program, raise what you wanted to and sell it for export, but there would be no price support on that.

One great advantage of that was that it meant that you did not have to worry about imports because foreigners would not be able to get certificates to sell their product here, so we solved that problem without having to go through all the hassle of whether you are limiting imports or not.

I do not know if there is any way we could figure out anything like that for honey, but I think that it is pretty obvious you have got a devil of a problem or we have got a devil of a problem in terms of doing something about imports if we are going to have you continue to survive.

Mr. **Adee**. Limiting the imports is the No. 1 problem. We are in a little bit of a different situation than the row crop farmer, where he can divert his acres to maybe some other commodity. We are locked into producing honey, and what do we do with the bees if we are not going to have them in production. I guess we have to kill them. I guess that would be it.

Mr. **Bedell**. I am not sure that is true.

Mr. **Adee**. But the thing, I guess, we want to remember is that we are not overproducing. We are not really producing all of the honey that the country is consuming. We are consuming about 250 million pounds a year on a normal year. Our normal production should be somewhere around 200 million pounds. And so we do have a shortfall of about 40 to 50 million pounds which could come in and not hurt us at all. But when you start doubling that and looking toward tripling it, by then it really becomes a burden in the market.

Mr. **Bedell**. Well, part of our problem, I think, is a jurisdictional problem in the Congress as to what we can do in the Agriculture Committee. That gets to be a difficult problem, but you said that you are not in the same situation as crop farmers because they can stop growing one crop if they are not making money on it and grow another.

Mr. **Adee**. No.

Mr. **Bedell**. I do not think there is any other one they can grow. [Laughter.]

Mr. **Adee**. No, I did not mean to infer that, sir. I meant you could at least hold the land together without letting it go down the tube, so to speak. With bees, it is hard to profit.

Mr. **Bedell**. OK, thank you.

Mr. **Coelho**. Mr. Daschle.

Mr. **Daschle**. Mr. Chairman, I have some questions, but in the interest of time, I think I am going to ask for responses in writing.

The testimony is excellent, and I do not know if I even realized that there were that many members who are here today, but I want you to know these gentlemen take an incredible amount of time and spend their own money coming to Washington on a frequent basis. I think I know them just about as well as any commodity group in South Dakota and it is because of their diligent effort and their willingness to come out and talk about this issue time and time again.

So I am not surprised by their excellent testimony, but I want you to know what a tremendous job these individuals do for you in constant contact with my office, and, I am sure, with the whole delegation.

I think of all things said, the statistic that just comes out with an exclamation is the statement made on page 2 of Don Schmidt's testimony where he says, "United States has only a 1 percent per pound duty, which is about a 2 percent duty on the product. But China has an 80 percent duty, Japan a 30 percent duty, the Common Market a 28 percent duty, Mexico 54 and Argentina 30 percent. And Brazil is a total ban." I mean I cannot believe—if ever there was a clearer indication of why we are losing ground on each and every commodity, I do not care if you are talking automobiles, if you are talking dairy, if you are talking livestock, if you are talking honey, we have got a problem on our hands that goes across the board. And this is probably one of the best examples I have seen of what we are talking about when we talk about unilateral disarmament. This is what it is. It is a disaster, and unless we can somehow get just as tough with our economic competitors as we are with our military ones, I have to believe if anyone here believes that our economy is directly linked to our national security, that we are directly affecting our own national security. That is what we are talking about here, and we have got a responsibility if we believe in protecting national security to do something about it.

So you have done a real service for us this morning, and I appreciate your coming.

Mr. Coelho. I also want to thank the panel. We have been sort of scheming up here as I said, and we may want to be in touch with you and also the honey producers in the State of California, obviously, and other areas, but as the Senate has opened up the box and we get into conference, we may be able to propose an alternative that might be better. So let us be imaginative and let us be creative and maybe we can do something with the farm bill that we are doing right now.

So, excellent testimony. I appreciate it very very much.

I would like to say before we conclude here that what we intend to do is to—the panel may leave—what we intend to do is to move the table to the railing there and anybody who wants to come up and make a statement, you will be allowed to do so. I will require that the statement be short and brief so that we can hear from everybody and so that we can somewhat keep on schedule.

Second, we will welcome anybody to submit statements for the record. They will become part of the official record. If you care to write to the subcommittee or write to the full committee, you may do so or send the testimony, letters or whatever to Tom Daschle's office and he can make sure that we get it and they will become part of the official record.

Those of you who did write in to the subcommittee should know that those letters have become a part of the record and are already included. So we will do that.

Mr. **Daschle**. Mr. Chairman.

Mr. **Coelho**. Yes.

Mr. **Daschle**. Mr. Chairman, I see we are going to talk to each other through the bars. I do not know who it is that is behind the bars; that is the thing. [Laughter.]

Mr. **Coelho**. I feel we are at the bottom of the pit, so I think we are behind the bars.

OK, let me make sure we know what we are doing here; we have about 10 or 15 minutes. Let me get a show of hands first of those who would like to make a statement. Would anybody like to make a statement?

Let me just see. One, two, three, four, five, six—anybody else? Seven, eight—all right. We will take about 10 to 15 minutes. We will limit your statements now to about a minute or a minute and a half. So, hopefully, you will do it. I will have to keep it moving, so all of you that did raise your hands, we will go ahead and recognize you at this time. Come forward.

STATEMENT OF PETER PREHEIM, VETERINARY PRACTITIONER, MARIO, SD

Mr. **Preheim**. Thank you, Mr. Chairman, Congressman Bedell, Congressman Daschle. I am Dr. Peter Preheim, private veterinary practitioner from Mario, SD.

I am very concerned about the safety of American people in terms of imported food products. I have in the past written to Mr. Daschle about this. I guess I am the party that Governor Janklow has given credit for starting the livestock ban in South Dakota from the—those who may have been treated with chloramphenicol. I am happy to see that Mr. Daschle has begun amendments to the farm program which limit this in some regard.

We have the dichotomy in the Federal program. We have on one hand EPA, FDA, and other agencies which will restrict certain products being used in the production and processing of American food in the name of public protection.

At the same time we are importing food products from other countries which may be contaminated with these products. We have a ruling in this country that only, for an example, meat which is slaughtered under USDA inspection may move interstate. I cannot process meat in South Dakota and move it into Chicago under South Dakota inspection, although by Federal mandate South Dakota inspection is equal to Federal inspection.

At the same time, we are bringing in meat products from other countries which are not federally inspected. Federal inspection means animal organ inspection all the way through processing.

I think it is only fair that we either give the same consideration to our producers and processors that we give to those who are importing into this country, or we recognize that the public is being endangered by imported products and we apply the same standards to those products that we do to our domestic production.

Mr. **Coelho**. I appreciate your statement.

Mr. **Daschle**. You are absolutely right and you do deserve the credit for making this an issue of the State.

In 1981, the three of us and others proposed the legislation that you are outlining, right down to the last word. Unfortunately, the administration convinced the conferees to drop that amendment as we were trying to work out our differences in 1981, but we have got it back in now.

My amendment was passed with Glenn English and the help of Tony and Berk and we have an amendment that says right now that is incorporated in the farm legislation, if meat is treated with a chemical banned in this country, it is no longer allowed to come into this country, period. And it is going to be required as a part of our whole trade policy, No. 1, and No. 2, we have got to step up inspection to ensure that that kind of a product is not coming into this country. It is one thing to say it is not going to happen, but it is another thing to put the teeth in it to ensure that it does not happen through tough inspection laws, and we are going to get the legislation passed. We are going to see that we can get this thing taken care of. But I really appreciate your willingness to fight this thing with us, and I think this is the year that we are going to get the job done.

Mr. **Coelho**. Thank you. Next witness.

I just want to make sure that all of you understand. I have to keep this rolling or we will not be able to do it. So a minute and a half for everybody, please.

Mr. **Squires**. Distinguished panel, I would like to try to figure out how we could get our trade negotiators to the same level that these foreign countries have their trade negotiators. I am not sure, but it seems like to me that every time the administration changes, the trade negotiators change also, and consequently we have got schoolboys against masters.

These other countries keep the same fellows in there trading all the time, and that is why we are being traded down all the time.

Thank you.

Mr. **Daschle**. The first step is to take it away from the State Department. It is absolutely ridiculous for diplomats to play economists and to understand the role of business in the international trade. We have got to give our international trade negotiators the same muscle, the same teeth that every one of these other agencies have; Japan has it, the Common Market countries has it, Brazil and Argentina. Australia has it. We do not have it because it is an orphan in the State Department, and as a result, we have got to get their approval before we do anything, and that is our achilles heel right down the line. And the Defense Department as well.

But you are absolutely right, Keith.

Mr. **Coelho**. The problem that we have is that the State Department and Defense Department control our trade policy, and there is no way we can get a fair break with that type of consideration.

STATEMENT OF ARNOLD LUND, FARMER, HUDSON, SD

Mr. **Lund**. Mr. Chairman, Members of Congress, I am Arnold Lund from Hudson, SD. I advocate a 25-percent mandatory set-aside. I base that on the fact that when we have 6 billion bushels of corn, we get $3 a bushel, which is $18 billion. When we have an 8-billion-bushel crop, we get $2 a bushel, which is $16 billion. By producing 2 billion bushels less, we get $2 billion more.

And to the advocates of a free market, I suggest that you sell your farm and buy a boat.

Mr. COELHO. Thank you for the statement.

STATEMENT OF MIKE O'CONNOR, FARMER, ALCESTER, SD

Mr. O'CONNOR. Mr. Chairman, Members of Congress, I am Mike O'Connor from Alcester, SD. I am a producer of four or five different commodities and I am going to speak on commodity checkoffs, which was introduced in your subcommittee. I am very much opposed to any commodity checkoff, as prices—you can see very well. What more do we have to lay out on the line? They do not work. The proof is there. You can have all the checkoffs you want and unless you promote a price or unless we have a margin of return, then we are defeating our own purpose.

I was glad to see you take on—if I could call them those cattlemen or comedians, whatever they prefer—like you did for one reason. They are the ones that are promoting the same investor-type business that is taking away from our farms right now, our family farm. The corporate worker is right in with them. Their policy states for investor-type business in hog business, so what more do we need when commodity groups have not done anything for farmers and I do not think they speak for most farmers.

Mr. COELHO. Thank you. As I understand, the Iowa Pork Producers and the National Pork Producers have just recently met and reached agreement on the checkoff program. I have not heard the details yet, but hopefully there is agreement. So we may have some support.

Go ahead. Give us your name, first.

STATEMENT OF WARREN BESSMAN, REPRESENTING THE SOUTH DAKOTA AUCTION MARKETS ASSOCIATION

Mr. BESSMAN. I am Warren Bessman, representing the South Dakota Auction Markets Association. I am a market owner, market operator, livestock feeder and farmer, also. Concerning the bill that was passed in the Senate about this mortgage and theft proposition, we want to commend you on what you have done.

Our association is in full agreement. It does not eliminate all of our problems, of course. There is some teeth that you did get into it; it does help us some.

This clear title deal is a big option to overcome today; getting up and operating the market in the morning is just about like putting a gun to your head and pulling the trigger. It is impossible to eliminate all the mortgages and things to be checked. It is just impossible to do.

We want to commend you on what you are doing now in the House, and full support in the Senate.

Thank you.

Mr. COELHO. Thank you very, very much.

STATEMENT OF DEAN SINCLAIR, CHEMIST, TEACHER, AND CONSULTANT, SIOUX FALLS, SD

Mr. **Sinclair**. Gentlemen, I am not even sure whether I should be speaking here since I am no longer a farmer. My family went out of the farm business in 1943, when the grasshoppers ate them out of the business.

Mr. **Coelho**. Give us your name.

Mr. **Sinclair**. My name is Dean Sinclair; I am a Ph.D chemist, sometimes educator and consultant. Consultant means that there are not any jobs open in chemistry and education at the present time.

But the point I would like to make, for what it is worth, and maybe the point is too obvious, without new wealth, an economy must ultimately collapse. That is the second law of thermodynamics. You cannot win.

Green plants are a major converter of sunlight into new wealth in our earth, and the agricultural community, of course, is the main converter of that new wealth into things that humans can use. Therefore, agriculture is not only basic, but is absolutely essential to any economy, and until worldwide, we get all of our leaders worldwide to understand that all of us are on this Earth together and that looking out for No. 1 on a short-term, gross-profit basis is counterproductive, we have got troubles. What I am talking about is the situation you are talking about now that we are getting into not only trade wars, but real wars across the world.

We are all in this together, and until we get an educational-worldwide thing that works, we are going to be hurting; we are going to be working from crisis to crisis.

I do not know if this is the place to say it, but I could not resist saying it.

Mr. **Coelho**. Thank you very much. Next witness, please.

STATEMENT OF DON JACOBS, FARMER, SIOUX FALLS, SD

Mr. **Jacobs**. Gentlemen, Don Jacobs. I am a cattle and hog and grain producer just west of Sioux Falls, and after the treatment you gave the last livestock people, I do not know whether to thank you for letting me testify or not. I am going to take my chances.

Mr. **Coelho**. It is a free country, you know.

Mr. **Jacobs**. I think there is a misunderstanding among the livestock producer and the grain producers. My dad always told me, "High corn prices, high cattle prices."

Now that has been several years ago, and things are not the same as they were several years ago. We are in a different ballgame, and I do not know if we have control of the price of our products or not. I know we do not have too much control over them. But you have got to admit that the red meat industry never has had support programming. The only support program that we ever had was the school lunch hamburger that you bought for the School Lunch Program, or the Government bought for the School Lunch Program. We have never had a direct support price, and we have really been taking it on the chin, there is no question about it. And one of the main reasons, I think, is the fact that we have got so many people that are diet conscious now adays.

Our consumption has come down from 102 pounds down to 80 pounds, and every time you pick up a paper, you hear something about red meat is not good for you.

Mr. Chairman, your State of California does not eat enough beef anymore to amount to a hill of beans, hardly, and that is a fact. I have a sister out there; we were raised on meat and potatoes, and if it was not for the fact that her husband wants meat, she would not eat meat because she is a nurse and she says the doctors say it is not good for her.

Mr. COELHO. Now she eats bean sprouts, huh?

Mr. JACOBS. I do not know what she is eating, but she still eats some beef, but not as much as she should. And that is the point that I want to make, that we have a real problem there. Our consumption is down and we pick on red meat—the doctors and the nutritionists and everybody says, "Do not eat red meat; eat fish and chicken." I think we could do a lot by changing that.

Thank you.

Mr. COELHO. I appreciate your statement. I hope that you understand, all of you in the audience, that we were not taking on the witnesses from the cattlemen, that what we were trying to do was to make sure that everybody understands that in order to get over tough economic times, all the different commodity groups and producer groups have to recognize that we have to work together to resolve it, and the only way you can do that is to give and take a little bit.

But I appreciate your statement very much. It is very accurate.

Yes, sir.

STATEMENT OF LeROY MATHIEU, MARKETING REPRESENTATIVE, SIOUX FALLS, SD

Mr. MATHIEU. Thank you. I am LeRoy Mathieu, and I am at the end of the line and it is very appropriate.

Mr. COELHO. Not quite.

Mr. MATHIEU. Do not do that to me. You lost my line. It is quite appropriate because in 3 years' time, I lost $100,000, which would not have been so bad, but it was the only $100,000 I had. So I am no longer a farmer. I would have loved to have been able to have raised my hand when you asked that question.

But I would like to address those who are here, and those who are in financial trouble, do not look at it as a personal vendetta. It was not. It was not personal. I got a number done on me, thanks to probably our President, probably to a banker or two, but I would like to thank Mr. Daschle for realizing that the problem is more than just agriculture. It is imports. Try to make a living at $4 an hour at CIT-bank; try and take food stamps; try and take heat assistance. Who are we kidding when we get to the point of saying we have a national deficit? Well, sure we do. We do not need more taxes, we need more taxpayers.

Ask these farmers how many of them paid taxes in the last year? I am waiting for a refund from the IRS for the money that I lost in 1984, that I paid in in 1982 because I sold the farm. Just ask these people that. We do not need that; we do not need foreign products.

Back in the 1950's, the Japanese imported a very little amount here. So why do we have a $30 billion deficit with Japan? What do they have?

I mean it is just ridiculous. It is all the way down the line.

I am now working in insurance. Where else do you go when you are 43 years old. I mean ask our Senator Larry Pressler. I was born and raised about 12 miles down the road from him. If he did not have his name, where would he be, if he did not have an education.

So where are these farmers going to go? They are going to go to the same place I am, and, hey, there is enough competition out there now. I do not need any more.

Mr. COELHO. Thank you very much. Very nice of you to come forward.

UNIDENTIFIED SPEAKER. Mr. Chairman, Mr. Daschle, and Mr. Bedell, the first point I would like to make is we keep talking about subsidies and how we are being subsidized. I wish there was some way we could get around this, because we are not being subsidized, we are subsidizing the American public.

Mr. COELHO. Absolutely.

UNIDENTIFIED SPEAKER. And the sooner we get that point across the better. We are subsidizing them by going broke.

Mr. COELHO. I thought the line of the previous person that we do not need more taxes, we need more taxpayers is really the best line of the whole hearing, probably.

UNIDENTIFIED SPEAKER. That is correct. The other thing is it seems like when we are talking about the beef industry, we seem to sidestep the imports, where all the other products we were talking about, especially the beef industry, they brought that on and it is a very important part of their discussion.

One other time I talked to Mr. Daschle, one point we have, for every pound of beef we export, we import 10. We say we have a surplus of beef, we really do not. If you check in your USDA records, we do not produce enough red meat in this country to take care of our own demand, but this all comes from imports.

We have the fewest cow/calf numbers or fewest cow numbers since 1962 or 1965. Granted, our consumption has gone down, but our population has also increased in these last 20 years, and the big difference is, the makeup in that difference is just the imports. If we have a little less beef around, we just open the import doors a little bit more, and that is a very important thing.

One other thing, too, I was a member of the National Cattlemen's Association. I totally disagree with a lot of their statements. They have some good points, too, but I am glad you brought up this point that you did earlier when they were up here. One thing they talk about cheap grain, and the gentleman previous to me also brought that up, you have cheap grain, you have cheap cattle.

You look at the situation we are in right now. We are in a bloodbath with the fat cattle market. The economists this spring were talking about $70 cattle; we are down in the low fifties. But the problem is their tonnage is up; we are talking about 100 to 150 pounds per head extra.

And why is this? Because we have got cheap corn right now, so we will feed them another 30 days and hopefully the market will turn around.

Mr. **Coelho**. Thank you very much.

I would like to say for the record that the reason that we did not do anything about imports on beef in the bill was that the cattle industry told me that that was not a problem that needed to be addressed, so we did not address it.

I want to thank all of you for participating, the witnesses in particular for coming forth to let us know their views. It is very very helpful to all three of us, in particular for me from California, to know what the people in this particular area are thinking in regard to the livestock industry, the dairy industry, and the feed industry.

I want to particularly thank Berk Bedell for coming out today. As some of you may know, we arrived at 3 this morning and went to bed for just a couple hours to come back to participate in these hearings, so Berk went out of his way to participate in these hearings, and as chairman, I thank Berk very very much for coming and joining us.

I also want to thank Tommy Daschle and his staff for setting up these hearings, for doing everything possible to make them as productive as I feel that they have been. I particularly want to thank Tom for inviting the subcommittee to come here and to participate in these hearings. It is an indication of his concern and support of the industry in this area.

As one who was born and raised in the livestock industry, I know the concerns that you are going through, but I appreciate Tommy's interest and desire to get us here to get more knowledgeable about this area.

I also want to thank the Sioux Falls stockyards for their facilities. It was very kind of them to do this. It is the first time I have ever participated in a hearing where I was in the pit, but it is an interesting way to do a hearing and I think very easy for us to monitor the hearing, to watch the reaction of the audience. So I thought it was very very good.

So, again, I want to thank Congressman Daschle for the invitation and for all the courtesies extended to us in these hearings.

Mr. Bedell, any comments?

Mr. **Bedell**. Only to thank both the audience here and you and Tom for making this possible.

Mr. **Coelho**. Mr. Daschle.

Mr. **Daschle**. I want to thank Berk Bedell and you, Tony, for your willingness to come. I do not know if you realize how busy schedules can be and how many different demands. Berk not only got 2 hours of sleep last night, we arrived after flying through the night at 3 this morning, he has to drive 300 miles yet today for another meeting. And so his day is not an easy one, and I am very grateful, and to all of you for coming and participating and providing us with the benefit of your thinking. I appreciate it very very much.

There is an old story about the politician who went to a farm auction and got up and began talking about farm prices and he got just about everybody over there and he talked about international trade and he got even more, and he talked about the credit problem and he had the whole audience there for a while. But the more he talked, the more he lost his audience.

Ultimately, after an hour and a half of speechmaking, there were just two older people standing very attentively right in front of him. He jumped down and walked up and said, "I want to thank you for listening to my entire speech. Which part of it did you like the best?" They said, "None of it. That is our wagon you are standing on." [Laughter.]

Well, we are standing on your wagon and I hope that we have touched on a lot of issues this morning that were of interest to you. We thank you for coming.

[Whereupon, at 12:07 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

TESTIMONY PRESENTED BY:

ODEEN "SKEE" RASMUSSEN, VICE PRESIDENT
SOUTH DAKOTA STOCKGROWERS ASSOCIATION

SUMMARY

Agriculture is on our nation's agenda. TV, newspapers and radio are daily giving information about low commodity prices, surpluses, agriculture trade practices, drought, and economic problems of farming and ranching.

Our Association is focused on areas that would improve our opportunities to make a living. We believe the following items need action by Congress.

* Reduce the national deficit and work toward a balanced budget.
* Work toward a trade policy that would eliminate our negative trade balance.
* Oppose commodity subsidies being paid to operators who cause new plow out of Class 4E, 6, 7, and 8 lands.
* Support a Public Lands Grazing Fee Formula that will recognize the ability to pay.
* Oppose subsidy programs in the 1985 Federal Farm Bill that would adversely impact any segment of Agriculture.
* Support limiting farm loss deductions by farms owned by non-ag corporations.
* Favor a division of administration of Public Lands between the Forest Service and Bureau of Land Management.
* Long term conservation reserve.
* Mandatory control on grain.

I am at this hearing, at the invitation of Congressman Tom Daschle. My understanding is this Sub-Committee Hearing is for the purpose of hearing from the "grass roots" - and - the House Ag Committee's work toward decisions on what the House of Representatives will be recommending for the 1985 Federal Farm Bill.

We are glad to participate. The state wide organization I represent is made up of cattlemen -- most of whom are cow/calf operators and yearling operators. We make our living running farms and ranches that depend on grass, hay, water, cattle, the weather, and prices we receive and the expenses we must pay.

The cattle business is South Dakota's largest industry. In many ways, South Dakota is a large grass feedlot for millions of cattle, hogs, sheep.

FARM CRISIS

We have heard a great deal about the [redacted] Farm Crisis. Particularly the last two years. People have turned their attention to the political arena and what Congress and the Administration should agree on in a Federal Farm Program for commodities and agriculture.

Cattlemen see the [redacted] Farm Crisis as a matter of low prices, slumping demand by consumers, a drought in most of South Dakota and the impact on the cattle business of government programs that are economically harmful to cattlemen.

Cattlemen believe the federal government and Congress can help us -- and our nation -- by doing two things. They are:

1. Reduce the national deficit and work toward a balanced budget.
2. Work toward a strong trade policy that would eliminate our negative trade balance.

We agree that deficit spending causing high interest rates is the number one problem facing our industry today. Devastating drought in the western one-half of South Dakota this Spring and Summer has compounded the situation many fold. Our producers now have two choices; (1) Sell their foundation breeding herds at greatly reduced prices, or (2) Purchase enough feed to get them through the winter hoping that next year the rains will come and prices will improve. Either choice is going to increase interest payments. Ag leaders tell us if we spend 25% of our gross income on interest payments we probably will not make it. Many of our people this year, due to the drought, the cattle market wreck and ever increasing operating costs are going to experience interest payments well above 25% of their gross income and that means disaster for them now and it will hurt the cattle industry over the long haul. Interest rates must come down.

Cattlemen recommend Congress approve legislation that would:

1. Support Sodbuster Bills. No commodity subsidies should be paid to an operator who causes new plow out of Class 4E, 6, 7, and 8 lands as determined by local conserva-

tion districts.

2. Oppose farm subsidy programs in the 1985 Federal Farm Bill that would adversely impact any segment of Agriculture.
3. Approve legislation limiting farm loss tax deductions by farms owned by non-ag corporations.
4. Support a statutory Grazing Fee Formula that will recognize the permittees ability to pay and maintain stability and will enhance grazing on Federal Lands and not be the single economic return to the U.S. Treasury.
5. Favor a division of administration of public lands between the Forest Service and Bureau of Land Management. South Dakota's National Grasslands should be administered with those in Montana and North Dakota.

POLICY DIRECTION

You will remember that South Dakota's Governor Janklow and 103 South Dakota Legislators, in February, came to Washington, D.C. to present a 16-point program for Agriculture.

We appreciate our state Legislator's effort in putting Agriculture on the national agenda.

We want this Sub-Committee to know a state wide poll among all Agricultural Organizations and the South Dakota Press Association show five recommendations by our state Legislature have almost universal support among all South Dakota voices in our state.

Here are the five agreed-to Ag Policy statements. The language is the same as adopted by the South Dakota Legislature and presented to Congress in February 1985.

1. Consolidate foreign commodity trade authorities and responsibilities in a central agency and initiate a long-term, competitive. trade policy which will insure that the United States achieves the maximum market share, and the highest possible prices, and a favorable balance of trade.
2. Balance the federal budget through a combination of equally distributed government budget cuts, management efficiencies, tax reforms and tax increases.
3. Implement monetary policies that lead to dollar exchange rates which enhance the potential for sale of this nation's commodities on international markets.
4. Form a Commodity Marketing Commission which would provide commodity marketing services, develop new uses and markets for farm products such as alcohol fuels, provide strategic grain reserves, deal with trade barriers and export subsidies, negotiate long-term trade agreements, enhance our commodity trading position through the General Agreement on Tarriffs and Trade, evaluate the effect of farm program proposals on international trade and generally support a competitive trade policy for commodities.
5. Enact legislation to limit agricultural business tax shelters for non-farm income.

OUR CURRENT SUGGESTIONS

1. We endorse the Beef Promotion and Research Act of 1985, recently approved by the House Agriculture Committee as an amendment to the 1985 Farm Bill.

   The legislation would allow the nation's cattlemen to vote in a delayed referendum to require a mandatory $1-per-head checkoff at all points of sale with a comparable amount assessed on imported beef, but paid by importers.

   A board made up of cattlemen would administer the beef promotion, research and consumer education program in coordination with existing activities of the National Live Stock and Meat Board and state beef promotion councils.
2. We are frustrated with the dairy industry's ability to revive the paid dairy diversion program, which expired in March. New legislation to give dairymen money for selling their cows to reduce milk production passed the House Agriculture Committee. The proposed legislation will allow dairy cows to be sold in direct competition with beef cows which don't get a federal cash subsidy. We object to such welfare programs.
3. The three critical issues for South Dakota Public Land's ranchers are a uniform fee that is reasonable, a clear definition of riparian areas and how to handle grazing creek bottoms. Some would like to see streams fenced to keep livestock off. We need to get agreement to delete a portion of the proposed bill enabling petitioners

to declare certain ranges as "unsuitable to graze". These issues could run us off the range if they aren't worked out.

4. The Department of Interior's Bureau of Land Management (BLM) and the Department of Agriculture's Forest Service (FS) have proposed an interchange of land management functions on an estimated 35 million acres of public land nationwide between the two land management agencies.

   There apparently is no effort being made to consolidate various blocks of Forest Lands or rangelands into either agency, thereby defeating savings in administration costs, since each agency will still maintain a full staff of foresters and range conservationists.

   We favor a division of administration of public lands in accordance with the dominant natural resource, such as timber lands and grasslands.

   The submarginal public lands known as the Bankhead-Jones Land Utilization Projects (National Grasslands) of which South Dakota have seven, should be administered in a unified manner.

5. Back in 1933 Henry Wallace started a program to fix farm prices with control of supply. Now better than 50 years later governmental supply control programs still have supporters.

   Our national economic upturn in prosperity the last few years has pretty much by-passed agriculture. Many others have suffered with us including farm equipment manufacturers - labor, lending institutions, and more.

Under PIK farmers got government grain to not plant crops. Prices showed some relief. PIK took out more land in just Vermont - Ohio and New York than all the farm land in Japan. PIK cost the national economy more than 200,000 jobs. PIK did a lot of harm to U.S. business, labor and export markets.

We understand programs are being suggested to remove millions of acres of farm land for conservation. Farmers with good prices will do a good job of conservation. Economic erosion of ag markets is much worse than erosion of the soil.

Mr. Chairman, two provisions in the 1985 Farm Bill being considered concern us: the long term conservation reserve, and the proposal for mandatory controls on grains.

We encourage conservation practices. Taking 20 to 30 million highly erodible acres out of crop production and putting it into less intensive use is a wise move -- much of this land should never have been in crop production.

However, we are concerned over what use this land will be put to and over what period of time that use will be phased in. This land will not be in a true conservation reserve under the proposal; instead, farmers will be paid to seed it to grass, and then may be paid to run cattle or to hay the land. This kind of subsidy, for land that was put into crops under subsidy, is hard to understand for cattlemen who have maintained good conservation practices on their rangeland.

We would like to see no haying or grazing allowed on land while the reserve contract is in effect. At the very least, no haying or grazing should be allowed while payments are being made to transfer it from cropland to grass. Even then, some restriction should be placed on use so that it is phased in over a period of years.

To do otherwise will not only be unfair subsidization, but will distort beef cattle markets as cattle are purchased to put on this pasture. Then, when the transition is complete, the additional cattle may depress beef prices. We urge you to place strong controls over haying and grazing on subsidized conservation reserve acreage.

The last issue I want to talk about is mandatory supply controls on grain. One proposal is being considered by the full Agriculture Committee. This proposal ignores the impact on the livestock industry.

Livestock producers are the biggest users of feed grains in the United States -- we consume nearly twice as much feed grains in the U.S. than we export. A mandatory supply control program which would artificially increase grain prices would be devastating for the cattle industry. If feed grain prices go up, feeder cattle prices fall, so every segment of the cattle industry would feel the effect.

We urge you to consider alternatives, and to work to defeat this mandatory control program.

We appreciate this opportunity to discuss these important questions with you. We are depending upon you to make the right choice that will affect and improve all segments of agriculture evenly.

STATEMENT OF MID-AMERICA DAIRYMEN, INC.

Mid-America Dairymen, Inc. supports the five point dairy proposal of the National Milk Producers Federation as incorporated in legislation approved by the House Agriculture Committee on July 9, 1985. The approved legislation became the dairy provisions of H.R. 2100, the Agriculture Committee's omnibus 1985 farm bill.

The basic provisions of the five point plan are:

(1) Continue the present dairy price support program, in which the U.S. Department of Agriculture offers to purchase surplus cheese, butter and nonfat dry milk at announced prices to maintain a floor under farm milk prices.

(2) Establish a new dairy pricing index to replace the outdated parity concept. The new dairy pricing index would be used to calculate the milk support price and would be based on actual factors involved in the cost of producing milk.

(3) Provide a supply/demand adjuster to adjust support prices relative to Commodity Credit Corporation projected dairy product purchases. The adjuster would be used to reduce the support price when CCC purchases are projected to exceed five billion pounds milk equivalent and to increase the support price if CCC purchases are projected below three billion pounds milk equivalent.

(4) Establish stand-by authority for a producer-funded paid diversion program for use when substantial adjustment in supplies is needed.

(5) Provide adjustment in the Class I fluid milk differentials in 35 of the 44 existing federal milk marketing orders so that these differentials more accurately reflect the cost of supplying and servicing these markets.

This proposal would also authorize marketwide service payments to cover the costs borne by some pool handlers for services of benefit to the entire market.

The milk diversion program that expired on April 1 of this year was a success. Milk production was reduced from 139.7 billion pounds in 1983 to 135.4 billion pounds in 1984, a reduction of 3.1 percent. More importantly, purchases by the Commodity Credit Corporation were reduced almost 50%, declining from 16.8 billion pounds in 1983 to 8.8 billion pounds in 1984. The reduced purchases resulted in a savings to taxpayers of over one billion dollars.

The milk diversion program was financed almost entirely by dairyfarmers with 92 percent of the diversion payments being made by deductions from dairyfarmer milk checks. Dairyfarmer deductions during the program totaled 875 million dollars.

The past diversion program was successful. The diversion plan provided by H.R. 2100 will be more successful since it provides for an initial 24 month program, and also provides for additional stability in the movement of dairy cows to slaughter.

SUBMITTED BY:
RICHARD L. ADEE
P.O. BOX 368
BRUCE, S.D. 57220

I am Richard Adee of Bruce, South Dakota. I am Vice-President and Legislative Chairman of the American Honey Producers Association, a nation-wide organization of honey producers with voting members in fourty states. I have served as President of the South Dakota Beekeepers Association and currently serve on the Advisory Board of that organization as chairman of the Taxation and Legislative Committee. I also serve on the Executive Board of the Mid U.S. Honey Producers Marketing Association. I own and operate Adee Honey Farms, which is a commercial beekeeping enterprise with over thirty two thousand colonies of bees under production in the states of South Dakota, Nebraska, Kansas and Mississippi.

On Monday, February 4, 1985 the President sent to Congress his budget proposals for FY-86. In his recommendations on major spending reforms and reductions in the 86 budget, we were dismayed to find that he proposes the elimination of the honey price support program. We appreciate the President's desire to balance the federal budget, but to eliminate the price support program on honey would be a disaster for our industry.

The honey price support level is set by statute under the Agricultural Act of 1949. Honey is to be supported at not less than sixty percent and not more than ninety percent of parity. Seldom during the life of the program has it ever been supported at more than sixty percent of parity.

Over the years the parity formula has increased the support price of honey. The administration has taken the position that the present price support level is causing an over production of honey with a consequent increase in cost to the government. However, contrary to what normally might be expected with a commodity, honey production has not increased but is actually declining. The 1984 crop of 165 million pounds was the lowest since U.S.D.A. began keeping honey production records. (Fig. 1)

We do agree with the administrations charges that the price support program is costing more money each year. Within a time frame of only four years, the cost of the program went from practically nothing in 1979 to over eighty eight million dollars in 1983. It is alarming when one considers that for the thirty years preceding 1979 the program cost to the government were relatively insignificant.

What has happened within the honey industry to cause an increase in the cost of the program? There is a direct relationship between honey imports and the amount of honey being taken over by Commodity Credit Corporation. (Fig. 2) There is the same relationship between imports and the cost of the price support program. (Fig. 3) Within the last ten years, our markets have been completely taken over by imported honey.

In 1975 the honey industry was alarmed by the rapid increase in honey imports. We saw almost a one hundred percent increase in imports from 1974 to 1975. On December the 29th of 1975 the industry petitioned the International Trade Commission to investigate the honey imports to determine if they were in fact constituting serious injury or a threat of serious injury to the domestic honey industry.

The I.T.C., acting upon the petition, determined that honey was being imported into the United States in such increased quantities as to constitute a threat of serious injury to the domestic industry, thereby entitling it to import relief. They recommended to the President import relief in the form of a tarriff rate-quota system. Unfortunately for the beekeepers of the United States, the President at that time "determine that import relief for honey is not in the national economic interest of the United States" and declined to act on the recommendation of the International Trade Commission.

Will E. Leonard, chairman of the International Trade Commission, in his report to the President, made the following observation: "The evidence in this investigation with respect to current import trends leads to the conclusion that honey imports into the United States will continue to increase. Foreign producers are increasing their productive capacities with the addition of new colonies, and some good leading suppliers of the United States imports have government programs to encourage the production of honey for exportation."

Chairman Leonard's predictions, based on the evidence collected during the hearing, turned out to be extremely accurate. The very next year, 1976, imports amounted to over 65 million pounds. This was a fourty percent increase in imports over 1975. During 1984 we imported 128.7 million pounds of honey-5 times more than was imported in 1975-the period the I.T.C. found damage to the domestic industry.

In July of 1983 officials from the honey industry met with Secretary of Agriculture John Block. We requested a Section 22 I.T.C. investigation on honey imports. The Secretary turned us down. The entire Senate passed a sense of the Senate resolution asking the Secretary to initiate a Section 22 investigation on imported honey. He chose to ignore their resolution also.

The survival of the bee industry in the United States is not only important to we beekeepers, it concerns every person in the U.S.. It is unique in this respect. Few people are aware of the importance of the honey bee in the production of food. It is something they take for granted. Like the sunshine and rain.

A recent study by Dr. M.D. Levin, U.S.D.A. Agricultural Research service, estimated the value of the U.S. crops that require or benefit from bee pollination to be between 17.6 and 19.9 billion dollars annually.

In U.S.D.A. Agricultural Economic Report-519, we find the following:

> "Bees are pollinators of more than one hundred agricultural crops in the United States. Many vegetables do not need bees or pollination to produce a crop, but

they are grown from bee pollinated seed. Bee pollination is required to produce seeds of forage legumes such as clover and alfalfa, which in turn are important to the production of meat and milk products. All seed crops such as cotton, sunflowers, soybeans, safflowers, and rape benefit from bee pollination."

"The economic benefits of pollination are not due solely to honey bees. Pollinating agents include wind and a wide variety of other insects including wasps, butterflies, moths, beetles, and flies. Despite the wide range of insects capable of pollinating crops, it is estimated that eighty percent of crop pollination is achieved by bees. A few species of wild bees have been more or less domesticated for man's use, but the honey bee is still the only pollinating insect that can be easily managed in sufficient numbers, moved at will, increased easily, provided year around, and that is able to pollinate a wide variety of crops."

"Because of the number of crops that depend on or are benefited by bee pollination, consumer effects from reduced pollination services are potentially much higher than those from reduced honey production. An estimated 3.47 billion dollars of fruits, nuts, and vegetables were produced in 1980 that require or benefit from bee pollination."

"Apiculturists and agronomists have not ventured estimates of the yield reductions that could result from inadequate pollination. However, the following example shows the potential magnitude of a one percent decrease in the production of fruit, nut, and vegetable crops that benefit from bee pollination."

"Becuase price rises more than production declines (in percentage terms), consumers total expenditure for the commodity increases when the supply is re-

> duced. The welfare of consumers is affected in two ways. First, consumers welfare is reduced because they consume less of the commodity. Second, consumers pay more for the commodity, and thus (assuming income is constant) must consume less of all other goods and services; this is equivalent to a reduction in income."

> "A one percent decline in production of the 3.47 billion dollars of vegetables, fruits, and nuts produced in 1980 that rely on bee pollination would reduce consumers welfare by 87 million dollars."

In 1980, the potential consumer effect from the one percent decline in the production of the preceding crops directly attributed to bee pollination was equal to the entire cost of the honey price support program in 1984.

We know, in the absence of honey bees on those crops which definitely depend on bees for pollination, we would see a much greater reduction than one percent. It could be as high as twenty five percent or more. Not only would the quantity be reduced but also the quality would be reduced. If we factored all of the crops benefiting from honey bee pollination according to the value of those benefits to the consumer we would come up with benefits running into the billions. Especially when one considers that one third of the total human diet is derived directly or indirectly from insect pollinated plants.

The administration, through Secretary Block, proposes that any short fall in income created by the termination of the honey price support program be made up by an increase in pollination fees.

In the summary of U.S.D.A. Agricultural Information Bulletin 465 (Honey Backgrounder) we find the following conclusion:

> "The impact of any signifigant reduction in pollinating numbers from changes in the honey price support program for pollination of these crops would depend on

> whether the beekeeper that provided honey bees for pollination can obtain a higher fee for their services. Since pollination costs are a very small part of the total cost of producing crops requiring pollination services, it is likely that rental fees could be increased to reduce or offset the economic affects of lower domestic honey prices for those beekeepers actively engaged in providing pollination services for a fee."

Dr. Robert McDowell in U.S.D.A. Agricultural Economic Report 519 contradicts the Honey Backgrounder-Bulletin-465 with the following:

> "With more beekeepers willing to provide pollination services, prices would probably decline for these · products and services. Thus beekeepers will probably not be able to increase the prices they charge for these goods and services; in reality, prices will probably decline because of increase supplies. As a result of the decline in honey production, the market price for pollination services and their alternative products may actually decline, further reducing revenues and increasing financial losses."
>
> "Like producers of many agricultural products, most honey producers are price takers not price setters. Domestic honey prices are unlikely to increase to the levels necessary to maintain profitability or to simply break even as long as imported honey is available to maintain current supplies."

Our industry is capital intensive and labor intensive and most of our competition comes from third world countries. We can not compete with these countries and still maintain a viable bee industry to supply the pollination needs of the United States.

The 1984 honey crop was the shortest since the U.S.D.A. began keeping records. Unfortunately the Commodity Credit Corporation will be taking over close to seventy percent of the 1984 crop. They will spend close to eighty eight million dollars in the disposition of this honey.

If the government wants out of the honey business, they can do so without bankrupting the beekeepers. No honey should be allowed to enter this country below the sixty percent of parity support level. If this were the case, we would have a price support program which would give us market stability with no cost to the government.

The main criteria for establishing the price support program in 1949 was to assure a healthy bee industry that could supply the pollination needed by our national economy. With the depressed prices and loss of markets to cheap imports, the price support program is vital to the survival of the bee industry. Without it, beekeepers will go bankrupt and the American consumer will pay the consequences.

In closing, we beekeepers want to thank you for holding hearings on the honey price support program. Your concern and support are welcomed and appreciated.

Respectfully Submitted,

Richard L. Adee, Vice-President
American Honey Producers Assoc.

(Attachments follow:)

FIGURE 1

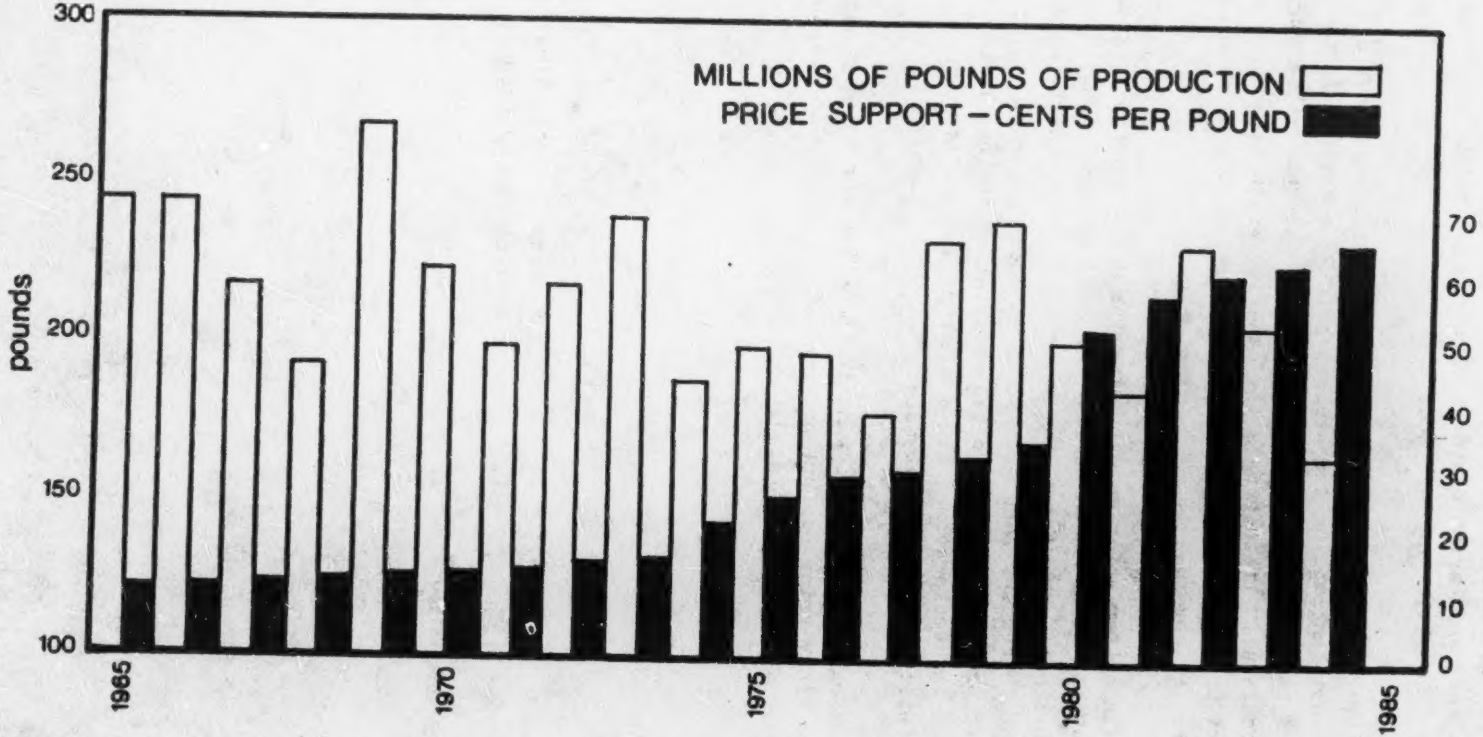
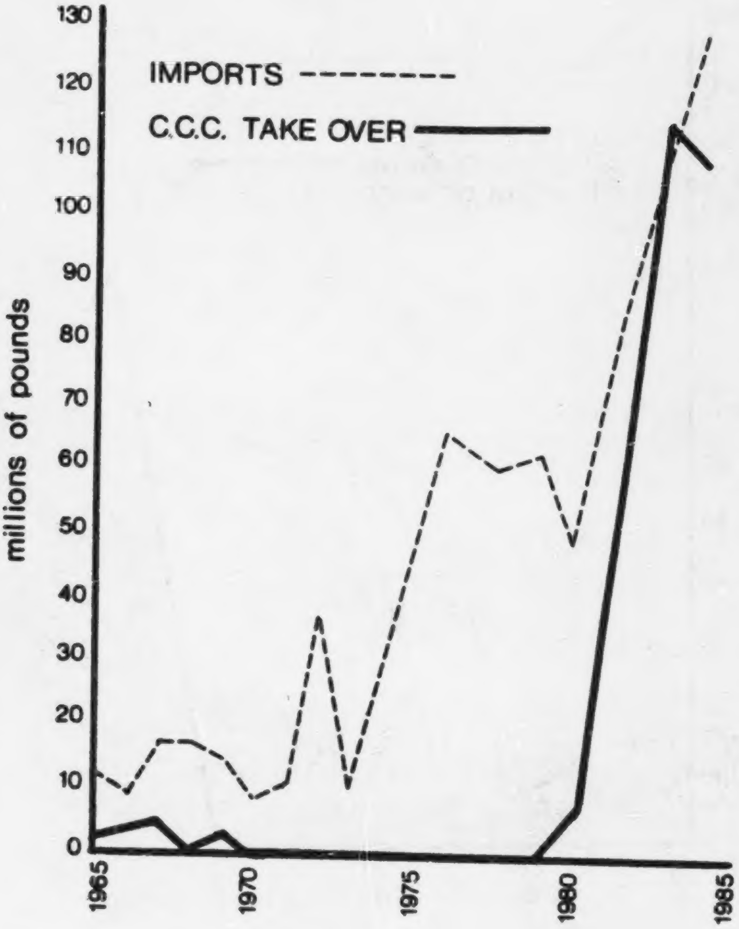

MILLIONS OF POUNDS OF PRODUCTION
PRICE SUPPORT—CENTS PER POUND
pounds
300
250
200
150
100
cents
70
60
50
40
30
20
10
0
1965
1970
1975
1980
1985

FIGURE 2


IMPORTS
C.C.C. TAKE OVER
millions of pounds
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10
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30
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50
60
70
80
90
100
110
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130
1965
1970
1975
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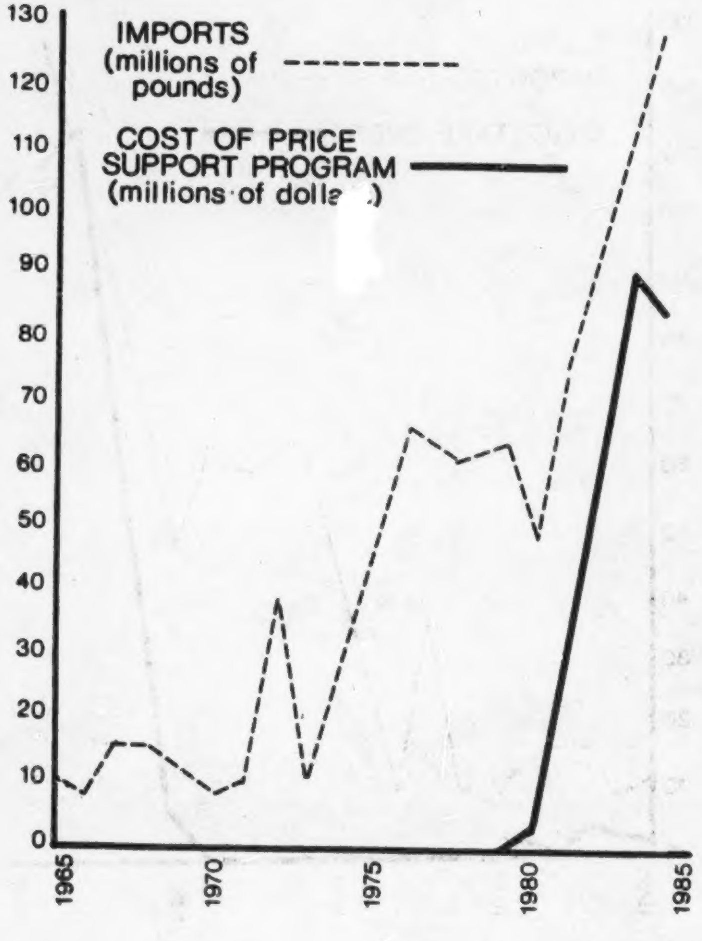
1985

FIGURE 3


130
120
110
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90
80
70
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30
20
10
0
1965
1970
1975
1980
1985
IMPORTS
(millions of
pounds)
COST OF PRICE
SUPPORT PROGRAM
(millions of dolla)

A STATEMENT ON THE HONEY LOAN PROGRAM

by

Stephen M. Klein, President
Minnesota Honey Producers Association
301 Robert Street
Marshall, Minnesota 56258
1-507-532-5550

To expedite my statement I have outlined what I feel are the important points and have added short comments to several sections.

I. Present Concerns

A. What is my personal interest in the Honey Loan Program?

1. Our family has been in commercial beekeeping for over 45 years. We produce approximately 100,000 - 150,000 pounds of honey annually.

2. In the past years we have marketed honey throughout the country and in Europe. Due to recent low cost imports a wholesale market that will pay a reasonable price which reflects production costs virtually does not exist. It has also become very difficult to compete with bottled foreign honey in the retail market. At present the only wholesale market viable to us is within an approximate 10 mile radius where transportation costs are minimal. The margins are so small it often would be better and certainly easier to forfeit the entire crop to the Commodity Credit Corporation through a honey loan. We have resisted this course of action but in each of the last several years the Honey Loan Program has provided an important source of income to our family.

B. What is Minnesota's interest in this loan program?

1. Minnesota is consistently among the top 6-7 states in the nation for honey production. (Table 1) The large number of commercial beekeepers that produce this crop are adversely affected by substantial imports of honey. Without the Honey Loan Program in Minnesota most beekeepers could not exist.

2. Minnesota is also an important state in terms of total agricultural production. A valuable resource in this production is the pollination provided by the honeybees. Policy decisions that would reduce the number of beekeepers and bees would have a dramatic adverse effect on the total agricultural production. (Table 2)

II. Some Questions Regarding the Honey Loan Program

A. Do loan rates of the Honey Loan Program reflect a reasonable value for honey?

   1. In almost all cases the loan rates represent an honest and fair price in relation to production costs.
   2. The current rates have not stimulated an increase in honey production. The annual production has remained stable over at least the past 20 years. The 1984 crop showed a decline in production from the previous year. (Table 3)

B. What will happen if the Honey Program is dropped?
   1. A substantial number (perhaps most) beekeepers would be forced out of business. The production costs would simply be equal to or greater than the value of honey produced.
   2. The lack of bees would have a dramatic adverse effect on other agricultural products which are directly or indirectly affected by honeybee pollination.
   3. How much is a dramatic effect? The value of honeybee pollination in the U.S. has been set at 19 billion dollars. This number has been determined by Dr. H. D. Levin, director of the USDA's Carl Hayden Bee Research Center in Tucson, AZ. (Table 4)

III. Marketing of Honey

A. Are beekeepers doing anything on their own to improve the situation?
   1. The beekeepers are supporting the Beekeepers Preservation Act of 1985 (H.R. 2382) which would provide for an ITC investigation of Honey Imports, hopefully resulting in tariffs or quotas for honey.
   2. This past fall the Honey, Research, Promotion and Consumer Act was passed and signed by President Reagan. It is designed to assess beekeepers in order to develop new marketing strategies for improved sales of American honey.

B. Can this program make an impact on honey sales and produce larger honey consumption?
   1. I think it can. One thing we all know is that it won't happen overnight. For now we need some support while we are developing this broader market base.

IV. Recommendations

A. I urge you to support an investigation by the International Trade Commission to study the effects of honey imports.

B. I urge you to support a continuation of the Honey Loan Program. With Import Restrictions and/or an improved market base the Loan Program will return to its intended purpose of providing loans rather than buying honey.

Respectfully submitted,

(Attachments follow:)

(Table 1)

Honey Loan Report

MONTHLY REPORT OF HONEY CCC LOAN ACTIVITY
AS OF January 31, 1985

Crop Year 1984

	No. of loans made	Pounds			
		Quantity put under loan	Loan quantity repaid	Loan quantity liquidated	Quantity outstanding
Ala.	103	793,567	2,376	---	791,191
Ariz.	160	2,025,910	11,298	---	2,014,612
Ark.	104	1,462,891	---	---	1,462,891
Calif.	749	12,253,092	20,634	---	12,232,458
Colo.	39	665,207	---	---	665,207
Del.	1	1,800	---	---	1,800
Fla.	794	8,170,817	85,593	---	8,085,224
Ga.	265	1,862,431	5,573	---	1,856,858
Hawaii	4	218,449	45,495	---	172,954
Idaho	135	2,779,775	---	---	2,779,775
Ill.	64	598,506	7,605	---	590,901
Ind.	21	157,562	---	---	157,562
Iowa	163	15,024,079	2,898	---	16,021,181
Kans.	53	1,344,109	12,420	---	1,331,689
Ky.	5	13,288	---	---	13,288
La.	115	1,341,531	---	---	1,341,531
Maine	5	101,003	5,400	---	95,603
Md.	1	23,490	---	---	23,490
Mass.	2	49,637	---	---	49,637
Mich.	283	4,040,801	27,671	---	4,013,130
Minn.	216	4,815,884	14,058	---	4,801,826
Miss.	64	542,883	---	---	542,883
Mo.	46	423,519	1,170	---	422,349
Mont.	44	1,623,071	6,200	---	1,616,871
Nebr.	219	4,779,440	13,590	---	4,765,850
Nev.	3	60,152	---	---	60,152
N. H.	1	6,480	---	---	6,480
N. J.	4	26,060	---	---	26,060
N. Mex.	16	458,187	---	---	458,187
N. Y.	210	2,102,282	3,570	---	2,098,712
N. C.	59	505,483	---	---	505,483
N. Dak.	463	14,433,536	192,136	18,240	14,223,160
Ohio	91	754,801	---	---	754,801
Okla.	11	130,577	1,836	---	128,741
Oreg.	48	979,361	4,160	---	975,201
Pa.	65	394,503	3,250	---	391,253
R. I.	---	---	---	---	---
S. C.	18	67,758	2,247	---	65,511
S. Dak.	295	9,609,571	2,941	---	9,606,630
Tenn.	23	236,342	1,782	---	234,560
Texas	215	3,019,545	33,372	---	2,986,173
Utah	48	666,691	6,000	---	660,691
Vt.	---	---	---	---	---
Va.	28	197,159	10,080	---	187,079
Wash.	87	1,220,088	8,910	---	1,211,178
W. Va.	5	37,246	---	---	37,246
Wis.	247	2,991,715	500	---	2,991,215
Wyo.	26	501,376	---	---	501,376
Total	5,619	104,511,655	532,765	18,240	103,960,650
1983-Crop	4,766	113,629,010	6,977,502		
1982-Crop	3,108	88,442,898	14,048,537		

(Table 2)

Apiculture

B. Furgala, M. Sugden, R. Hyser

Beekeeping is unique in that it provides dual benefits to Minnesota Agriculture. According to production figures collected by the Minnesota Department of Agriculture and the Minnesota Agricultural Statistics Service, the estimated farm value of honey and beeswax produced by Minnesota beekeepers during the 1981-83 period averaged $6,982,940 per year.

During this same period (1981-83) the farm value of a number of fruit, forage, seed, and oilseed crops that depend upon or are benefited by honey bee pollination was increased by $31,494,886 per year as estimated below.

Commodity	Increased farm value[a] due to bee pollination (in %)	Value of benefit ($)
Honey and beeswax	--	$ 6,982,940
Apples	80	3,417,066
Raspberries	20	320,000
Strawberries	20	1,200,000
Red Clover	100	1,364,000
Sweetclover	100	Not available
Cucurbits	80	5,600,000
Sunflower (oilseed)	20	17,743,820
Sunflower (hybrid seed)	100	1,200,000
Home garden vegetable and fruit	--	650,000
Total		38,477,826

Thus pollinating activities of bees are valued at 4.5 times the value of the honey and beeswax they produce. This estimate does not consider the aesthetic benefits that Minnesotans receive from bees pollinating home orchards and gardens. Nor does the monetary estimate reflect the value of bee pollination to our native fruit, nut, oilseed plants, and flowers that provide food and cover for the many bird and wildlife species that grace our urban and rural landscapes.

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[a] From McGregor, S. E. 1976. Pollination of Cultivated Crop Plants.

(from Estimated Annual Losses Due to Insects in Minnesota 1981-1983, University of Minnesota, Institute of Agriculture, Agricultural Extension Service)

(Table 3)

Calendar (crop) Year	BEEKEEPING STATISTICS				HONEY LOAN PROGRAM ACTIVITY		
	Colony Numbers	Yield per Colony	U.S. Honey Production	Honey Imports	Amount Placed Under Loan	Amount Acquired by CCC	Support Price
	1,000	pounds	million lbs.	million lbs.	million lbs.	million lbs.	¢ per lb.
1955	5,252	48.6	255.2	9.9	1.8	0	9.9
1956	5,195	41.2	214.0	4.8	1.6	0	9.7
1957	5,199	46.4	241.2	4.8	2.9	0.1	9.7
1958	5,132	50.6	260.5	3.9	5.6	2.0	9.6
1959	5,109	46.3	236.6	4.5	1.3	0	8.3
1960	5,009	48.5	242.8	12.4	1.1	0	8.6
1961	4,992	51.3	255.9	9.0	4.2	1.1	11.2
1962	4,900	50.9	249.6	7.1	3.4	0	11.2
1963	4,849	55.0	266.8	2.6	3.2	0	11.2
1964	4,840	51.9	251.2	4.9	9.5	2.2	11.2
1965	4,718	51.3	241.8	13.3	17.3	3.3	11.2
1966	4,646	52.0	241.6	9.5	33.9	4.1	11.4
1967	4,635	46.6	215.8	16.8	31.0	5.4	12.5
1968	4,539	42.2	191.4	16.9	24.9	0.1	12.5
1969	4,433	60.3	267.5	14.7	45.7	3.5	13.0
1970	4,285	51.7	221.7	8.9	40.6	< 1.0	13.0
1971	4,107	48.2	197.8	11.4	22.9	0	14.0
1972	4,085	52.8	215.6	39.0	19.8	0	14.0
1973	4,124	58.0	239.1	10.7	12.1	0	16.1
1974	4,210	44.6	187.9	26.0	13.9	0	20.6
1975	4,206	47.4	199.2	46.4	No	0	25.5
1976	4,269	46.4	198.0	66.5	Program	0	29.4
1977	4,323	41.2	178.1	63.9	14.1	0	32.7
1978	4,090	56.6	231.5	56.0	40.5	0	36.8
1979	4,163	57.3	238.7	58.6	49.1	0	43.9
1980	4,141	48.2	199.8	49.0	41.1	6.0	50.3
1981	4,213	44.1	185.9	77.3	55.2	38.7	57.4
1982	4,250	54.1	230.0	92.0	88.4	74.3	60.4
1983	4,275	48.0	205.0	109.8	113.5	114.9	62.2
1984	4,350	38.05	165.0	120.0	107.4	107.4	65.8

(Table 4)

Value of Bee Pollination to United States Agriculture[1]

by M. D. LEVIN[2]

I Commodities that require or benefit directly from bee pollination

Fruits and Nuts	1000 Dollars
Apples	737,027
Apricots	33,705
Avocados	121,293
Bush berries	62,263
Cherries (Tart)	43,648
Cherries (Sweet)	91,812
Citrus	
Lemons	61,319
Tangerines	37,559
Tangelos	26,816
Temples	25,020
Cranberries	88,674
Eggplant	10,411
Nectarines	44,468
Peaches	368,004
Pears	174,876
Pomegranates	3,516
Prunes and Plums	13,777
Strawberries	288,776
Cantaloupes	161,133
Cucumbers — fresh	116,260
Cucumbers — process	100,933
Honeydew	42,864
Watermelons	149,757
Almonds	473,340
Macadamia	24,174
	3,321,425

Seeds and Fiber	1000 Dollars
Alfalfa	114,652
Red clover	16,176
Ladino clover	3,941
Crimson clover	1,433
Lespedeza	2,628
Soybeans (1/10)[a]	1,382,494
Sunflower	410,377
Cotton seed (1/10)[a]	57,693
Cotton lint (1/10)[a]	407,831
Lima beans	25,137
Flax	59,054
Vegetable Seeds	60,000
	2,541,416

II Commodities resulting from seed requiring bee pollination

	1000 Dollars
Artichokes	27,473
Asparagus	82,118
Broccoli	55,286
Brussel sprouts	15,706
Cabbage	175,211
Carrots	161,432
Cauliflower	95,762
Garlic	33,816
Onions	346,539
Alfalfa hay	4,981,394
	5,974,737

III Commodities indirectly dependent on bee pollination

	1000 Dollars
Cattle and calves (1/10)[b]	5,435,974
Liquid milk production (1/10)[b]	1,688,340
	7,124,314

∴ Total Sum I + II + III = 18,961,892,000

[a] Not all varieties benefit. Ten percent is a conservative estimate of pollination value.

[b] 60% of all hay fed to cattle and dairy herds is alfalfa. A conservative 10% of total value is credited to pollinating activities that initiate the following chain of production: pollination ► alfalfa seed ► hay ► cattle, meat and dairy.

THE role of bee pollinators in the production of many economically important crops in the United States has been the primary justification for much of the support provided by government agencies to the beekeeping industry. The concept has been accepted that an adequate population of honey bee pollinators can only be maintained in the framework of a thriving beekeeping industry which obtains most of its income from the production and sale of honey and beeswax. In this context, the honey price-support program, the bee-indemnification program, and the bee research program of the Agricultural Research Service have been carried out by the U.S. Department of Agriculture (USDA) with the support and encouragement of Congress.

From time to time, attempts are made to quantify the importance of bees in the pollination of agricultural crops. In 1957, crops dependent upon or requiring bee pollination for seed or fruit were valued at 4.5 billion dollars (Metcalf, Flint and Metcalf, 1962). By 1971, this value had increased to 7.6 billion dollars (Ware, 1973). With increasing prices for most crops, and some new crops representing an increasing proportion of the total acreage, this value has since increased dramatically, and a current reevaluation appears appropriate.

An update is presented in Table 1 of the dollar values of crops and commodities that were included among some 129 crops listed by McGregor (1980) as dependent upon or benefitting from insect pollination and that, moreover, were also included in USDA's Agriculture Statistics (1981). No attempt was made to separate the crops according to dependency on insect pollination. In many cases the precise dependency is unknown, so no exact calculation can be made (McGregor 1976). In addition, the value of crops and commodities derived from seed produced by pollination is credited to pollinators on the principle that without seed, the crop could not be grown, or, that without alfalfa hay, beef or milk could not be produced as efficiently as they are now.

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[1] Previously published in the Bulletin of the Entomological Society of America, Vol. 29 (4): pages 50-51.

[2] Director, Carl Hayden Bee Research Laboratory, USDA, Tucson, AZ.

Although the total value of crops and commodities affected by the pollinating activities of bees has reached an impressive figure on a national basis, the beekeepers who supply most of this service receive very little monetary compensation for it. A study made by the U.S. International Trade Commission (1976) revealed that of the total beekeeping incomes earned by 118 commercial beekeepers in various states during 1971-1975, the proportion derived from pollination fees averaged only 9.7%. In Washington, Oregon and California where use of pollination service is greatest, some large commercial beekeepers earned about one-third of their income from pollination. In a few other areas (New England, Mid-Atlantic States, Texas, Florida) pollination fees contributed less to the income of beekeepers; elsewhere, income from pollination fees was insignificant for most beekeepers.

The total value of crops listed in Table 1 would have been greater if the farm value of squash, pumpkin, safflower, buckwheat, persimmon, mustard, rutabaga, turnips, and many other minor crops had been included. Some crops included in other lists were not included in the Table because the evidence for pollinator contribution was obtained on cultivars and in conditions not available in the U.S.

As can be seen, the total value of crops resulting from pollinator activity in 1980 approaches $20 billion, which compares with approximately 140 million dollars worth of honey and beeswax produced. These figures indicate that the activity of bee pollinators is worth 143 times as much to the American economy as is the value of honey and beeswax, on which most beekeepers must make their living.

Much could also be said of the undocumented contributions made by the pollinating activities of native species of bees and honey bees, both feral and domesticated, to crop plants and to thousands of wild plants (as forage, seed and fruit sources, shelter, erosion control, etc.) for many forms of wild life that are integral parts of natural ecosystems.

Honey bees, of course, are not the only insect pollinators contributing to the production referred to. A multimillion dollar industry has been developed in the Pacific Northwest, where two other species of bees *(Megachile rotundata* and *Nomia melanderi)* are managed successfully for the pollination of alfalfa. With the advent of monoculture, large scale farming, and other modern agricultural practices, many species of non-honey bee pollinators play a diminishing role whereas dependence upon man-managed honey bees has increased. Also, beekeepers increasingly face problems in maintaining the required pool of honey bee pollinators to supply the needs. It is because of the impact of bee pollinators on nearly $20 billion worth of agricultural crops and commodities and not for the value of honey and beeswax that federal assistance has been provided to help the industry cope with the pesticide, marketing, management and other problems that could impede its ability to supply pollinators.

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Reprinted from March, 1984, American Bee Journal
Vol. 124 (3): 184 - 186

P.O. Box 25,
Haddam, Kansas,
July 24, 1985.

My dear Congressman:

The need of the HONEY LOAN PROGRAM is crucial to the Bee Industry and American Agriculture. With the great amount of honey being imported into this country at 38¢, with only a 1¢ a pound duty, the Packers are encouraged to buy foreign honey instead of American Produced Honey.

As owner and operator of over twelve hundred hives I know the lowest cost of production of honey is over 60¢ a pound. Our markets are being flooded with foreign honey with lower production cost as well as cheaper labor. This has created a serious cash flow on the American Bee Industry while leaving us without a market place.

The American honey bee is needed for pollination of American crops that feed our people as well as a percent of the world. In these times this thought is foremost on everyones mind as well as in their hearts.

The HONEY LOAN PROGRAM makes it possible for the American Honey Producer to contimue operation. Thereby pollinating American Crops to produce food for the American People as well as fulfill our obligation to feed a per cent of the world.

Sencerely yours,

Robert D. Adee

Robert D. Adee.

The Honorable Tony Coelho,
United States Congress,
Washington, D. C.

RDA:eja

Adee Honey Farms

Haddam, Kansas 66944

PRODUCER OF FINE HONEY AND [redacted]

July 25, 1985

Congressman Daschle and Coelho
Members of the House Agriculture Subcommittee Livestock, Dairy and Poultry:

Do we as beekeepers really have to tell you that without price supports the beekeeper is finished? I don't think we do. I firmly believe that you are on top of our situation.

I believe that you know that foreign imports are taking our commercial markets.

I believe that you know that the price support program has worked with very little cost to our government until foreign imports invaded our markets.

It has been pointed out at even with the increase (inflation) in the price of supports there has been no increase in production.

I assume that you know the honey bee is the chief pollinator of many vegetable and fruit crops. Do you know that without bees the plentiful supply of fruits and vegetables would vanish from stores and markets? Let's face it, we are talking starvation in these United States if the bees disappear.

The phrase "market orientation" is getting under my hide. We cannot compete for jobs and markets with slave and peon labor.

It's time we did something about it - - NOW.

Sincerely,

Vernon H Adee
Vernon H. Adee

Testimony by Les Blomberg
Director of South Dakota Meat Promoters
to the
Livestock, Dairy, and Poultry Subcommittee Hearing
Sioux Falls, SD
July 26, 1985

Ladies and Gentlemen:

JUL 29 1985

My name is Les Blomberg. I am on the Board of Directors of the South Dakota Meat Promoters, an organization dedicated to the preservation of the producers of red meat.

I would first like to thank Congressman Tom Daschle and Congressman Tony Coehlo for co-chairing this meeting and for arranging to have this hearing in South Dakota, thereby giving us the opportunity to express our agricultural concerns on many subjects.

There are a multitude of farm related problems and the majority of these problems are imbedded in a governmental cheap food policy and in intervention policies that continue to hold the farmer in some form of serfdom. No organization or no person today has the power or the expertise to attack the many governmental bureaucrats who are wringing the life blood from the American family farmer.

The South Dakota Meat Promoters have dedicated themselves to concentrate on those issues vital and necessary to preserving the family farmer. This must be through legislation designed to correct the many flaws perpetrated against the red meat industry.

I speak specifically now for the need of total inspection of foreign imported meat and the labeling of these products from the point of origin.

Less than one tenth of one percent of foreign meat entering this country is actually inspected. The American consumer assumes that imported meat is clean, wholesome and uncontaminated by residue and disease. This is not the case, nor has it ever been the case. The American consumers have the right to know that all food is safe from disease and contamination. Yet they do not know. The leading cause of the inability of the American consumer to know, is our lack of labeling of foreign imported meat, so they can choose if they question.

The Meat Promoters applaud Congressman Daschle for recently introducing a foreign meat labeling bill. Congressman Daschle has taken the driver's seat in trying to close one of the many weak links in the red meat chain. We are all behind him in this effort.

Let me point out that the labeling of foreign imported meat is just as vital and just as necessary as the labeling of foreign cars, or television sets, or shoes. Whether a foreign product should or should not be labeled should not be the responsibility of our political bureaucrats. That decision rests with our Congress or the American people.

Patriotism still runs high in this country. The American consumer, given a choice, all other things equal--those of price and quality--will still buy the products of good old U.S.A. That support of American consumerism is still our strength for all of us seeking life, liberty and the pursuit of happiness.

Thank you.

Les Blomberg

Les Blomberg, Director
South Dakota Meat Promoters

July 24, 1985

Dear Sirs:

I am unable to attend your hearing so I am sending this letter. In order for me to maintain a profitable business I need the price support program that has been in effect. I couldn't pay my bills at the market price of honey and would have to quit my business as it wouldn't be profitable. We will definitely use a program if it were in effect. Thankyou

Bruce R Brown

Box 123
Agenda, Ks 66930

Agenda, Kansas 66930
July 25, 1985

Dear Sirs:

Although I am unable to attend this meeting on the importance of the honey industry, I would like to show my support through this statement. I believe that whatever legislation the representatives of our honey organizations have proposed will be in the best interest of not only us as producers but the crop yields of the nation's farmers also. I am the wife of a beekeeper, and we desparately need a price support program to maintain a honey producing business. I respect your in-depth knowledge of the government's financial position, but I also believe that we elect congressmen to carry the needs of the people to Congress and not to carry the needs of the Congress to the people. Please support legislation to help us. Thank you for your attention.

Sincerely,

Irene Brown

BROWN HONEY FARMS
Jerry and Donette Brown
Haddam, Kansas 66944
913-778-2002

July 25, 1985

Chairman Coelho and Congressman Daschle
Members of the House Agriculture Subcommittee Livestock, Dairy and Poultry:

Gentlemen:

I am a member of the American Honey Producers Assn., and a life-time member of the Kansas Honey Producers Assn. I am twenty two years old and am attempting to buy enough bee hives to become self-supporting. I currently work for my father with his beekeeping outfit.

I grew up in a beekeeping family and have seen that imported honey started hurting the market in the mid 1970's. By the early 1980's nearly all beekeepers in the industry including myself have had to forfeit our honey to the government.

It is plain and simple to see that if a large tarrif (30¢) were put on imported honey, the government would have practically no honey delivered to the C.C.C., and the Honey Loan Program could be continued at virtually no cost.

The American farmers need the honey bees for pollination of their crops. Pollination cannot be imported. Neither can the farmers afford to pay us for pollination.

the number of beehives in the U.S. have been on a steady decline since the early 1950's. The average yield per colony has also declined.

SUMMARY

1. Imports have destroyed the honey market
2. A 30¢ per pound tarrif is needed on imported honey
3. The honey loan program can be continued at a low cost
4. Pollination is a must for agricultural crops
5. Pollination cannot be imported
6. The amount of honey produced has declined since the 50's

Respectfully submitted,

Jerry A. Brown
Jerry A. Brown

BROWN HONEY FARMS

Robert I. and Donna J. Brown
Rt. 1, Box 96, Haddam, Kansas 66944
913-778-2954

July 25, 1985

Chairman Coelho and Congressman Daschle
Members of the House Agriculture Subcommittee Livestock, Dairy and Poultry:

Gentlemen:

We deeply appreciate Congressman Daschle's efforts in setting up this meeting to allow us honey producers to give you a statement about the price support on honey.

I have been using the price support on honey for twenty two years. I could not operate without it.

Until 1983 I used it for operating capital until the honey was sold the following spring. It also allowed me to sell my honey when the domestic price was the highest.

Because of imported honey taking over our markets, I was forced to surrender my honey to the U.S.D.A.

There are several reasons why we cannot use only imported honey and why we cannot compete with imported honey.

1. Bees pollinate the crops in a two mile radius of their hive

2. Without bee pollination crop production would go down and many of our fruits and vegetables would become extinct

3. It is the larger honey producers that have enough bee hives to pollinate crops. It takes one hive an acre to pollinate, and hobbyists usually have one to a dozen hives and aren't able to transport their hives for pollination on a large scale.

4. The world price would not meet our expenses
    A. We start our labor at the minimum wage scale. Not everyone is willing to get stung on the job.
    B. Our equipment is bought at U.S. prices, here where they are made
    C. Our supplies are costly as we are a small specialized industry where no mass production cuts costs.

Please help us stay in business pollinating the crops for farmers here in Kansas. Farmers beg us to put bees on their farms. They can't afford to pay us, but our honey helps us to be able to pollinate. Thank you for your concern.

Respectfully submitted
Robert I. Brown

MID-WEST apiaries
MARK EMDE, Owner
Dallas, South Dakota 57529 • (605) 835-8214
Apopka, Florida 32703 • (305) 886-8632

July 23, 1985

The Honorable Congressman Coelho
House Agriculture Subcommittee
Livestock, Dairy and Poultry
Washington, DC 20510

Dear Congressman Coelho:

I am a beekeeper in the state of South Dakota. I am also a member of Sioux Honey Association, a marketing co-op.

I'm sure that you are aware that 45% of all the honey consumed in 1984 was imported. The only way that we have been able to survive for the past several years was because of the Honey Price Support program.

Now that program is about to be eliminated! Who cares? The American people, but they don't realize it, and when they do it will be too late. With the program gone so will go most of the beekeepers. And with that one of the best sources for pollination that there is. Here in South Dakota beekeepers receive no pollination fees as is the case in most of the United States. This is because some of the crops we pollinate also produce honey. And if we have to sell our product under what are expenses are, we will not be in business long!

It is possible to import honey, but not POLLINATION......... About 20 billion dollars worth of crops depend upon bees for pollination.

What's the answer? Following is a 10 point program that would solve most of the problems and get the government out of the honey packing business, and put U.S. Honey back on the shelf.

1. We need a Section 22 investigation by the International Trade Commission. Imports are part of our problem.
2. Retain the 60% to 90% level of parity and retain the loan, but eliminate the possibility of government purchase of honey.

The Business is Beekeeping - Producing Quality Honey
Principle production areas: South Dakota, Nebraska, North Dakota & Florida

MID-WEST apiaries
MARK EMDE, Owner
Dallas, South Dakota 57529 • (605) 835-8214
Apopka, Florida 32703 • (305) 886-8632

3. Loan provisions on honey would be limited to a monetary amount not to exceed the commercial bulk honey price as determined monthly by the advisory panel or the 60-90% parity price, whichever is lower. The loans would be subject to normal interest.

4. Establish an advisory panel to determine the commercial bulk honey price in the U.S. for each grade of honey.

5. Have producers, packers and Commodity Credit people represented on the panel in a balancing fashion.

6. Establish a government subsidy directly to the producer for the difference between world market price and the 60% parity price regardless of actual price obtained by the producer.

7. Allow the honey producer to negotiate in good faith with his buyers, with the producer being aware that he can accept any price but that he will be subsidized only the difference between the established market price and the parity price.

8. Ask the government to impose a parity price freeze for a two-year period to give the world market price for honey an opportunity to catch up with the increased levels of production.

9. Maintain honey as a separate commodity group, not lumped with other agricultural commodities.

10. Present government surplus to be disposed outside of the U.S.

Thank-You for your consideration in this matter.

Sincerely Yours,

Mark Emde

Mark Emde, Owner
MID-WEST APIARIES
LET:COELHO.075

The Business is Beekeeping - Producing Quality Honey

Principle production areas: South Dakota, Nebraska, North Dakota & Florida

WORLD'S LARGEST HONEY MARKETING ORGANIZATION

SIOUX HONEY ASSOCIATION
509 Lewis Boulevard • Sioux City, Iowa

Telephone (712) 258-0638
(SUE BEE SOU) TLX 48-0154

Post Office Box 388 51102

March 15, 1985

In recent years the Sioux Honey Association Cooperative has been adversely affected by the escalation of the support level of the price of honey. Because of competition in the marketplace with low priced imported honey it has been impossible for the Association to return the artificial price as set by the 60% of parity price level. In addition to the imported honey, the Government's free distribution of six to seven million pounds of honey each month has contributed heavily to the steady decline in the Association's retail sales.

Very few of the members of Congress know of the importance of our industry or understand it fully. This makes us vulnerable. We offer a solution which would be helpful to the Government and also beneficial to the honey industry in the U.S.

The objectives of the proposal are:

1. Retain the 60% to 90% level of parity and retain loan provisions but eliminate the possibility of government purchases of honey.
2. Loan provisions on honey would be limited to a monetary amount not to exceed the commercial bulk honey price as determined monthly by the advisory panel or the 60-90% parity price, whichever is lower. The loans would be subject to normal interest.
3. Establish an advisory panel to determine the commercial bulk honey price in the U.S. for each grade of honey.
4. Have producers, packers and Commodity Credit people represented on the panel in a balancing fashion.
5. Establish a government subsidy directly to the producer for the difference between world market price and the 60% parity price regardless of actual price obtained by the producer.
6. Allow the honey producer to negotiate in good faith with his buyers, with the producer being aware that he can accept any price but that he will be subsidized only the difference between the established market price and the parity price.
7. Ask the government to impose a parity price freeze for a two-year period to give the world market price for honey an opportunity to catch up with the increased levels of production.

SIOUX HONEY ASSOCIATION
WORLD'S LARGEST HONEY MARKETING ORGANIZATION

March 15, 1985
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8. Maintain honey as a separate commodity group, not lumped with other agricultural commodities.

9. Present government surplus to be disposed of outside the U.S.

The advantages of this proposal would be:

1. Honey buyers and packers would have no reason to buy foreign honey because domestic honey could be obtained at world honey prices. This would also reduce the U.S. balance of payments.

2. The government would spend considerably less on a subsidy program than on a parity program that causes them to buy and pack large quantities of unneeded honey.

3. Most importantly, a great portion of our domestic market would be returned to the honey producers and packers of the United States.

We ask your support in bringing this plan before the Congress. After all, it is the honeybee of the domestic producer which provide the vital role of pollination services which is so essential to the productive food chain that exists in this country.

Respectfully yours,

Gary L. Evans
President

tb

JOHN MORRELL & CO

Douglas L. Hough
Sr. Vice President
Sioux Falls Division

July 25, 1985

The Honorable Thomas Andrew Daschle
United States House of Representatives
Washington, D. C. 20515

Re: House Bill 1591

Dear Congressman Daschle:

We want to take this opportunity to express our strong support for House Bill 1591, of which you are a co-sponsor.

As you know, for years, meat packers and other purchasers of agricultural commodities have been subject to "double jeopardy" because of the Uniform Commercial Code's so-called "farm products exemption". Because of this exemption, meat packers who buy livestock in good faith have been forced to pay twice for the livestock when the seller defaults on an undisclosed bank loan. The meat packer has no practical way of protecting itself from this potential double liability. House Bill 1591 goes a long way towards correcting this unfair situation and returning meat packers to the same position as other good faith purchasers of goods.

We appreciate the support you have given to this much needed legislation and urge you to continue working for its passage.

Very truly yours,

Doug Hough

Doug Hough
Sr. Vice President
Sioux Falls Division

DLH:jlb

P.O. BOX 1268, SIOUX FALLS, SOUTH DAKOTA 57117 - 605/338-8200 first fidelity bank

[illegible] Dakota 575[illegible]

AUG 06 1985

August 2, 1985

Representative Tom Daschle
2455 Rayburn Office Building
Washington, D.C. 20515

Dear Representative Daschle:

I would request that the following statement please be included in the official record of the meeting held in regard to the honey price support.

I do believe that I can speak to this issue with a certain expertise. Even though we are a relatively small banking organization, I would guess we may well have more money lent to the honey industry than any other bank in South Dakota. I have been in the position to follow, and listen, and watch the honey industry improve our agriculture for some time. I have had two children who have worked extensively for honey producers and am convinced that this is an industry that if we let fail, we will be damaging a far greater segment of our farming population than just the honey producers. We see many other ag customers begging and requesting to have bee hives placed on their property, even to the point of asking me to make contracts for them. It is quite apparent that the value is probably understated rather than overstated.

The big problem is again the federal government. It is my understanding that the government had not taken any honey before 1979 or 1980, and they allowed importing in an indiscriminate manner which has been injurious to our local producers. What needs to be done is to place some import limitations or a small tariff to balance this off, and I would think that with nearly half a hundred growing entities that the bees pollinize, it would be unwise to remove honey price supports. The government storage problem could be solved with better management of imports.

If you have any further questions relative to my expertise and knowledge of the financing of this industry, contact me at your discretion.

Very truly yours,

John Lillibridge

John Lillibridge
Chairman

cc: Richard L. Adee
Glen Gibson
Charlie Lyon

SUBMITTED BY

HOWARD H. SCHMIDT

COMMERCIAL BEEKEEPER

WINNER, SOUTH DAKOTA

My name is Howard H. Schmidt, of 522 W. 8th St., Winner,
South Dakota 57580

Telephone 605-842-2842

I am the former President, for ten years, of the Mid-U.S. Honey Producers Marketing Assoc. Inc. representing producers of an eight state area of the upper Mid-west. I have had the privilege of serving on Government selected Advisory Committees to Wash. D.C. as a representative of Michigan, Ohio, and Indiana beekeepers. Later from the upper Mid-west representing the beekeepers in the Dakotas and surrounding area. I have served in the past as President of the Michigan Beekeepers Association for four terms in the fourties, and again for three terms in the fifties. Also, I have served as President of the South Dakota Beekeepers Association for several terms, and am presently serving on its advisory board. I have been in the Commercial Beekeeping business all of my life, having had my own bees at age seven, thus having over sixty years of beekeeping experience. Also, I was the Petitioner as president of the Mid-U.S. Marketing Association requesting a Hearing by The International Trade Commission on Honey Imports being'Injurious' to the Beekeeping Industry, and therefore a " Serious Threat " toward " Pollination " of many crops here in these United States which we depend upon for our use, or for International Trade. As the records of the Hearings show, the Trade Commission voted in the Industry's favor, then recommending to the President of these United States their solution, which basically was ignored, when President Ford stated " the solution was against his basic agricultural policy ". Had President Ford reallized this was a 'Special Breed of People' doing a 'Highly skilled job for our country' he would not have so ignored the recommendation of the Trade Commission, and the Beekeeping business would not be in the sad state it is.

The effort to do something about the Honey Import situation was started shortly after 1968 by the Mid-U.S. Marketing Assoc. Inc., when I as President had a private meeting with Secretary of Agriculture, Mr. Clifford Hardin, Asst. Sec. Mr. Bernhard Lyng and their staff, to go over the then sad plight of the beekeeping industry and suggest solutions. A meeting with Ambassador Dent and Mid-U.S. officers ended with Mr. Dent stating, " The Beekeeping Industry is a 'National Security Factor, since the foods produced through "POLLINATION" can be used in International Trade for things our country needs, such as oil.

We also met later with Ambassador Strauss as regarding the seriousness of the import problem and as it will eventually effect Pollination and production of food crops. Lack of Pollination is a direct result of huge Honey Imports. Since "Pollination" must come from within our own borders, "It cannot be imported". Beekeepers depend almost entirely upon production of honey for their livelyhood, thus furnishing free pollination to the area, therefore, if imports destroy their incentive to remain in the business, loss of pollination will follow. Everything possible must be done to influence this hardy breed of individuals to stay on the job. Not too many individuals can operate a commercial bee business, as it is labor intensive and is a highly skilled occupation, not to even mention the bee stings the operator must stand each day. We as a country need these men badly, but the elements of nature, pesticides, bee diseases plus the threat of the'killer bee' have many bee operations on the verge of calling it quits. The latest Bee Journals have more bees for sale than ever.

Needless to say I have become very disgusted and dissappointed with our U.S. Government's attitude toward the Beekeeping Industry in recent years. Here is an industry that helps produce billions of dollars worth of crops for our country through "POLLINATION" while only reaping a hundred million to maintain theindustry and themselves. What has happened to our government officials that they are so ignorant of certain important facts. Have we a breed of people in Wash. D. C. that don't care? If so, they will be the ruination of these United States within the very near future.
Let me relate for a moment what our U.S. Government thought of the Beekeeping Industry at the beginning of World War 11. I was born the son of a commercial beekeeper, Mr. Oscar H. Schmidt, we worked with the bees as a family unit, as this was our only means of support. In 1939 my father bought out another commercial beekeeping unit in the Thumb area of Michigan. Since I was the oldest son and twenty years of age I was sent to manage the operation, some seventy miles from home. The war broke out two years later and all of us young lads were subject to being drafted for service. Being healthy and of the right age, I expected to go, however, when I was called to appear before the draft board they had specific instructions for me. You are a commercial beekeeper and our country needs you as a highly skilled apiarist, or beekeeper, therefore, you are ordered to stay on the job. Furthermore, for every four hundred colonies of bees you maintain we will defer another man to work for you, providing he stays on the job. Also, I was given a triple A-1 rating for any machinery I might need for the business. The order was, " Go, increase the business, we need the " POLLINATION " in order to produce many of the foods for our soldiers abroad. Then I asked, "What caused this opinion? ". I was told the Government

had just conducted an experiment with DDT on one or more of the Pacific Atolls, where they sprayed off all the insects, just to find out what would happen. It was found that all plants, trees or flowers that needed pollination or cross-pollination, did not produce and the result was a dead island. Somehow, the importance of the balance of nature has been ignored by our Legislatures, we need to re-educate them fast, before it will be too late. As I write this statement millions of bees are being killed off by spray planes using deadly chemicals with abandon, in this very area. The same thing is taking place clear across our nation and you might say, nothing constructive is being done about it.

If it takes a new hearing before The International Trade Commission to get something done, then lets do it. We have wasted much too much time already since the last hearing. I therefore favor and support Rep. Chappie's Bill H.R. 2382 asking for such an investigation. However, much money and time could be saved by honoring the Investigation of 1976 and applying up to date solutions to the problem.

In my estimation two things Must Be Done at this time for the Bee Industry. By all means " Maintain the present Honey Loan Program, this is "Critical". Secondly, Place the proper Ad-Valorem tax on Imported Honey, or its equivalent in whatever form to bring the imported price up to at least the present support price to the beekeeper. Imports have ruined the domestic honey market so completely that it is impossible to sell even a single truck load of honey at a high enough price to cover cost of production.

Before ending my statement may I re-iterate what I have insinuated. This is a "Unique" occupation that deserves "Special" attention, and perhaps even special laws, so that its economic structure remains sound and our country retains the tremendous advantage of "FREE POLLINATION", as time goes by.

Respectfully Submitted by

Howard H. Schmidt

Howard H. Schmidt
522 W. 8th St.,
Winner, S. Dak. 57580

Stafford Honey Farm
Rt 1, Box 18
Haddam, Kansas 66944

July 25, 1985

Congressman Tony Coelho:
Members of the Livestock, Dairy and Poultry Subcommittee:

Dear Sirs:

We here at Stafford Honey Farms, with our mere (300) colony commercial operation are amongst the "Small part-time beekeepers", but it is a good part of our income each year.

Over the last several years we have developed wholesale accounts in two states, Kansas and Nebraska, in an attempt to market the honey we raise. We used to sell to Barkman's Honey Company in Hillsboro, KS. but with the increase of cheap honey (.30 - .35 a pound) from Mexico and China they won't even offer to buy our honey!

The owner himself who has bees in South Dakota placed his crop under loan with the Commodity Credit Corporation and bought foreign honey to package for resale at his plant in Hillsboro!!

This attitude is reflected by other major U.S. packers and PROFIT is the bottom line, to everyone concerned except the U.S. honey producer himself who is getting the "short end of the stick".

Without some kind of price support for U.S. producers or tariffs against imports, thousands of commercial beekeepers will go under because of NO fair market for their crop.

I just read recently where some $19 Billion worth of fruit and grain crops, etc. are dependant on pollination alone. Honey is a by-product of the bees' efforts in pollination and their own survival, and since the majority of us don't get paid anything for pollination, honey is the only source of income we have.

I believe that Fair is Fair but our operating costs and equipment can not be offset, let alone something left over to live on with .30-.35 honey flooding U.S. markets, a 265% increase in honey imports in the last two (2) years.

We'd appreciate your help and comments and feel free to write for more information.

Sincerely,

Alan R. Stafford
Alan R. Stafford

SOUTH DAKOTA STATE UNIVERSITY
Brookings, South Dakota 57007

Department of Plant Science
Field Crops—Plant Pathology—Soils—Weeds
Main Office, 219 Agricultural Hall, Box 2207-A
605/688-5121
Plant Science Building, Box 2109
605/688-5156
College of Agriculture and Biological Sciences

July 26, 1985

Representative Tony Coelho, Hearing Chairman
House Agriculture Subcommittee for
Livestock, Dairy and Poultry
(Meeting in Sioux Falls, South Dakota)

Dear Representative Coelho:

As a research worker in the area of alfalfa seed production at South Dakota State University I am very concerned with the intentions of the United States Department of Agriculture relative to the future of the honey price support program.

If honey production does not pay the expenses of beekeepers, honey bees will not be available for pollination in South Dakota. For example, one colony is adequate per acre for honey production in alfalfa. This is the usual maximum concentration of colonies on alfalfa in South Dakota now. Five colonies per acre are required, according to our investigation, for pollination of alfalfa for best seed production. At 100 lbs of honey per colony (one colony per acre) on alfalfa the honey production with five colonies per acre would be reduced to 20 lbs per colony. Therefore, a $200.00 per acre pollination fee ($.50 x 80 = $40.00 per colony) would be needed for alfalfa seed production in South Dakota. Not being able to add this cost to their operations, South Dakota farmers requiring honey bees for alfalfa seed production will simply go out of the business.

Beekeepers as an occupational group have had difficulty acquiring credit because of the common picture in the mind of the public of bees flying off at will. Most of the commercial beekeepers operate mobile businesses to keep up with the crop availability. Moving bees for honey production or pollination requires a ready source of operating capital. Since 1948 and the initiation of the Honey Price Support and Loan Program, beekeepers have depended on this loan procedure for operating capital and an orderly cash flow.

In 1984 U.S. beekeepers initiated a self-assessment on honey for promotion which, if approved by beekeepers in the 1985 referendum, will increase consumption of honey in the U.S. above present 0.5 lb/capita. Results of this self-help beekeepers' promotion program won't be known for 3 or 4 years. Removing the honey loan program before the promotion program has had an opportunity to develop its potential will be a dosaster for the industry. Beekeeping cannot be placed on an "idle acres" type of standby which has been practiced with other farm crop programs. Waxmoth and other pests of beeswax quickly destroy stored bee equipment.

The problem is not the overproduction of honey in the United States. While total production will fluctuate from year to year, it can be readily noted that these variations are directly related to weather conditions in the major honey producing areas. The problem is that too much honey is being imported into this country. With U.S. beekeepers being guaranteed a price which is only 60 percent of the cost of production (parity), this price is still better than honey in other countries will bring. Since honey can be imported into the U.S. with practically no tariff restriction (1 or 3 cents per pound), while other countries' tariffs range from 11 cents to flat prohibition of imports, it is no wonder that this country has become a dumping ground for honey. With the cost of production (parity) rapidly increasing with the inflation rate in the late 1970s we found the imports of foreign honey began to increase in 1980 and the market price reflected the price of these cheap imports. In that year 49 million pounds were imported and U.S. beekeepers for the first time since 1971 turned over 6 million pounds to the Commodity Credit Corporation. This increase in foreign honey imported and U.S. honey sold to the government has increased each year until 1984 when the U.S. crop was slightly down due to poor weather conditions. Honey imports have risen to an all time high of 129 million pounds in 1984.

In 1976 at the request of the U.S. honey industry an investigation was conducted by the U.S. International Trade Commission. As a result of that investigation the Commission reported that U.S. honey production was being damaged by imported honey. Nothing resulted from the 1976 investigation. In September of 1983 Senator Larry Pressler of South Dakota requested a Section 22 International Trade Commission study on the effect honey imports were having on U.S. honey production. His request was completely ignored.

In 1955 honey imports were just over 9 million pounds. That same year no honey was taken over by the Commodity Credit Corporation. In 1984, 129 million pounds of honey were imported and 110 million pounds were taken over by the CCC. This amounts to approximately the same importation of honey (9 million pounds in 1955) in 1984 plus the 110 million pounds purchased by the CCC. If the U.S. Department of Agriculture considers the purchase of foreign honey essential to our balance of trade in the world market, why doesn't it purchase all the foreign honey directly and not blame this fiasco on the American beekeeper? Minor adjustments may well be in order but don't drop the honey loan and price support program.

It is understood that my comments are those of an individual professional research person and not necessarily the conclusions of this institution. Kindly include this written statement for the record of this hearing.

Respectfully yours,

R. J. Walstrom

R. J. Walstrom
Entomologist

RJW/nk